

NSW Motor Accidents CTP Scheme

2016 Scheme Performance Report

July 2017

Contents

1. Introduction.....	3
1.1 Executive summary	3
1.2 Overview of the NSW Motor Accidents CTP Scheme	6
1.3 State Insurance Regulatory Authority	7
2. Market.....	9
2.1 Background.....	9
2.2 Key facts as of June 2016.....	9
2.3 Withdrawal of insurer from the CTP market.....	9
2.4 Outlook	10
3. Premiums.....	11
3.1 Background.....	11
3.2 Key facts.....	13
3.3 Outlook	15
4. Analysis of cost drivers in the scheme.....	16
4.1 Background.....	16
4.2 Cost drivers.....	16
4.3 Outlook	21
5. Sustainability.....	23
5.1 Insurer profit	23
5.1.1 Background	23
5.1.2 Key facts	24
5.1.3 Comment	27
5.2 Superimposed inflation	27
5.2.1 Background	27
5.2.2 Key facts	28
5.2.3 Comment	28
5.3 Efficiency.....	29
5.3.1 Background	29
5.3.2 Key facts	29
5.3.3 Comment.....	30
6. Claims and disputes.....	31
6.1 Background.....	31
6.2 Key facts.....	31
6.3 Comment	34
6.4 Outlook.....	34
7.0 Glossary.....	35

1. Introduction

1.1 Executive summary

This report outlines the State Insurance Regulatory Authority's (SIRA) analysis of the NSW Motor Accidents Compulsory Third Party (CTP) Scheme (the Scheme) up to 30 June 2016 and provides an overview of initiatives up to June 2017 including developments in CTP scheme reform. The data contained in this report is based on analysis of key metrics of the Scheme undertaken by scheme actuary, Ernst & Young. For more detailed discussion of the data please refer to the Ernst & Young report *Review of Selected Performance Indicators of the NSW CTP Scheme 2016*.

This report is comprised of six chapters:

1. Introduction: scope of the report, an overview of SIRA and the Scheme
2. Market: changes to insurer market share in the 2016 accident year
3. Premiums: Green Slip premium prices and affordability
4. Analysis of cost drivers in the Scheme
5. Sustainability: financial sustainability, insurer profit and efficiency
6. Claims and disputes: a look at claims duration and profiles, Nominal Defendant claims, Claims Assessment and Resolution Service (CARS) and Medical Assessment Service (MAS) disputes volumes and outcomes

Key performance indicators up to June 2016:

- Green Slip premiums increased from an average of \$542 in 2015 to \$585 in 2016 for all passenger vehicles in NSW. This is largely due to continuing increases in the frequency of full claims. Between June 2015 and June 2016 the frequency of full claims increased from 25 to 27 claims per 10,000 vehicles.
- The number of legally represented minor injury claims has increased by 200 per cent between 2008 and 2016, and by 23 per cent between 2015 and 2016, making up 53 per cent of claim numbers in 2016.
- The number of Accident Notification Form (ANF) claims has been increasing, making up 20 per cent of total claim numbers in 2016.
- The number of CARS applications for general assessment rose significantly by 11 per cent in 2015/16, while other dispute types remained relatively stable.
- MAS applications seeking a permanent impairment assessment rose 18 per cent (597) in 2016, part of a 44 per cent increase over the past four years at an average rate of 11 per cent a year.

Outlook

While this report focuses primarily on trends observed in the Scheme during 2015/16, it will include observations around the continued deterioration in the performance of the Scheme since June 2016.

In the *2015 Scheme Performance Report*, we highlighted some worrying trends in claims, such as propensity to claim, claim frequency (particularly for minor severity claims with legal representation), claims cost, insurer profit and efficiency. It should be noted that while some of the more concerning trends appear to have stabilised, they are not showing any sign of reverting to pre-2015 levels.

Despite reducing casualty numbers, propensity to claim and claim frequency has continued to increase. Claim frequency for minor severity claims involving legal representation has increased by 149 per cent between 2008 and 2016 (with a 20 per cent increase in 2016 alone).

The recent increase in claim frequency has resulted in premium increases of around 4.2 per cent on average (or \$28) for a Sydney passenger vehicle since 30 June 2016.

While we continued our work on non-legislative improvements to the Scheme during 2015/16, including the development of revised claims handling guidelines and a review of the premium system, the continued decline in scheme performance was the driving force behind the NSW Government's decision to review the NSW Motor Accidents CTP Scheme.

This review was the major focus of our work during 2016.

Review of the NSW Motor Accidents CTP Scheme

In March 2016, the NSW Government announced a review of the Scheme that was underpinned by four key objectives:

- increasing the proportion of benefits provided to the most seriously injured road users;
- reducing the time it takes to resolve a claim;
- reducing opportunities for claims fraud and exaggeration; and
- reducing the cost of Green Slip premiums.

Throughout the review process the NSW Government consulted extensively on reform options: releasing a number of discussion papers for public consultation; conducting CTP reform and Point-to-Point round tables to seek the views of stakeholders and those working in the CTP scheme; releasing an independent review of insurer profit and consulting on proposed actions to address insurer super profits; conducting social research to understand community views on the Scheme and how it could be improved; and, obtaining legal professional and insurance industry stakeholder feedback on draft legislation prior to a Bill being introduced into Parliament.

The Motor Accident Injuries Bill 2017 (the MAI Bill) was passed by the NSW Parliament on 30 March 2017.

The *Motor Accident Injuries Act 2017* (the MAI Act) introduces a hybrid CTP scheme, delivering fault and no-fault defined benefits for injured road users while retaining the right to claim modified common law damages for those both able to prove fault and with injuries other than soft tissue or minor psychological injuries.

The changes will protect those with genuine injuries and ensure the bulk of CTP premiums go towards injured motorists, but will also significantly reduce scheme costs and the opportunity for fraudulent and exaggerated claims, meaning the majority of motorists can expect to see a significant reduction in their premium in the new scheme.

The government's changes are expected to reduce the state-wide average annual Green Slip premium by around \$120.

The new CTP scheme is expected to commence on 1 December 2017.

Review of insurer profit within the NSW CTP scheme

During 2016 we introduced 10 of the 21 recommendations of the independent review of insurer profit and competition within the NSW CTP scheme, which included the

development and implementation of new *Premiums Determination Guidelines* and taking a more active supervisory approach to insurer premium filings. We also developed a risk equalisation mechanism, to better manage risk and share cross-subsidies in the Scheme, which will be implemented on 1 July 2017.

The final report on the review, released in March 2016, recognised that despite undertaking a range of regulatory measures to tackle insurer profit, inherent uncertainties in the Scheme and inefficiencies in premium system design meant that super profits were still able to be achieved by insurers within the existing legislative framework. The review identified a number of legislative measures to address super profits to be considered as part of the government's reform program, which included: providing increased powers to SIRA to monitor and analyse insurer profits; abolishing the fully funded test to prevent overly conservative insurer premium filings; and, limiting insurer expenses and agent commissions to put downward pressure on premiums.

A range of legislative measures, including those mentioned above, were included in the MAI Bill and will be introduced when the MAI Act commences.

To further eliminate excessive insurer profit, the MAI Act introduces a profit normalisation mechanism to 'claw back' and return excessive profits to vehicle owners, reduces incentives for fraudulent and exaggerated claims, and creates greater certainty for insurers around benefits and timeframes.

Market and premium changes and initiatives

No new licences have been issued since the *2015 Scheme Performance Report*. There are currently six insurers licenced to sell Green Slips (following Zurich's withdrawal from the CTP market in early 2016).

The 2015 report highlighted an increasing amount of cross-subsidisation in the Scheme, noting it stifled competition among existing insurers and deterred new entrants to the market. In addition to its expected effect on insurer super profits, the introduction of a risk equalisation mechanism (as mentioned above) will create a level playing field for insurers in managing higher risk policies, reducing the likelihood of insurers leaving the market and encouraging new insurers to enter.

Revised *Premiums Determination Guidelines* introduced on 1 July 2016 support further increased scrutiny of CTP insurers by SIRA. SIRA monitors individual insurer performance, relative to the industry average, in the areas of claim frequency, finalisation rate and average claims cost and holds quarterly insurer briefings to provide guidance on our view of the performance of the Scheme and insurer premium filing expectations.

Claims initiatives and improved customer outcomes

We implemented new *Motor Accident Guidelines: claims handling and medical (treatment, rehabilitation and care)* from 1 January 2017 that focus on ensuring claims are resolved justly and expeditiously, the injured person is kept informed and insurers act to optimise their recovery.

We worked closely with insurers, legal practitioners and health professionals throughout 2016 to develop guidelines that support the delivery of claims handling outcomes that align with the objects of the Act and establish a high standard of service for injured people.

The Claims Advisory Service continued to facilitate early claims notification and accelerated access to treatment and rehabilitation by directly connecting injured

people to the insurer who will manage their claim. This initiative consistently receives positive feedback from customers.

Motor Accidents Compensation Regulation 2015

In the *2015 Scheme Performance Report* we detailed the commencement of a new Motor Accidents Compensation Regulation 2015 and highlighted a new provision requiring plaintiff lawyers to disclose information to us about their claims costs and the amounts paid to claimants on their finalised claims.

Since this provision took effect on 1 October 2015 SIRA has been monitoring claims costs to develop a better understanding of the efficiency of the Scheme. Analysis of this data is included in section 5.3 of this report.

CTP fraud

There was significant emphasis during 2016 on tackling fraud in the CTP scheme. This encompassed a range of initiatives including: the establishment of a multi-agency taskforce to counter fraudulent claims; the creation of a CTP fraud hotline to report suspected fraud; the release of the report *Deterring fraudulent and exaggerated claims in the NSW CTP insurance scheme* which identified fraud trends and detailed ways to address it; and, conducting a targeted advertising campaign in areas of Sydney with high instances of suspected fraud to promote the fraud hotline.

The NSW Government also committed to spending an extra \$1.2 million in the State Budget in June 2016 to identify fraudulent activity and prosecute those responsible. In August 2016, the NSW Police established Strike Force Ravens to investigate syndicates targeting the CTP scheme following recommendations of the CTP taskforce. At the time of writing, Strike Force Ravens investigators had arrested 10 people and laid more than 80 charges in relation to a combined fraud of almost \$10 million. Investigations are ongoing and further arrests are expected.

Changes introduced when the new MAI Act commences will further address fraud by removing incentives to engage in fraudulent behaviours and make exaggerated claims by limiting access to lump sum compensation payments and providing defined benefits for minor injuries. The MAI Act will also provide us with greater powers to investigate and prosecute fraud as well as introducing enhanced penalties for people lodging fraudulent and exaggerated claims.

Sustainability

Until such time as the MAI Act commences, the outlook for Green Slip premiums continues to be poor due to the persistent deterioration in yield rates and a marked increase in claims frequency.

The average premium for passenger vehicles in the Sydney metropolitan region increased by 9.9 per cent (or \$60) between June 2015 and June 2016. Without scheme reform it is anticipated that premiums would have continued to increase at a greater rate each year than inflation.

1.2 Overview of the NSW Motor Accidents CTP Scheme

The NSW Motor Accidents Compulsory Third Party (CTP) Scheme (the Scheme) provides compensation for people injured in motor vehicle accidents that are the fault of another vehicle owner or driver. While the Scheme is primarily a third party scheme, in some cases, benefits are available to the person at fault.

In the current scheme, benefits for claimants are determined under modified common law, which allows for negotiation as to the amount payable and settlement is by single lump sum. Expenses for medical, rehabilitation, treatment and domestic assistance are paid by the insurer as they are incurred by the injured person. The current scheme also provides compensation for future treatment, rehabilitation and care, past and future economic losses and for those who exceed an impairment threshold, damages for non-economic loss, or pain and suffering. These compensation payments are made in a lump sum at the finalisation of the claim. Once the lump sum has been paid, no further claim can be made on the insurer.

The existing scheme provides access to early payments for medical and treatment expenses and lost earnings up to \$5,000, irrespective of fault, using the Accident Notification Form (ANF). The ANF delivers benefits for treatment expenses and lost income incurred within the first six months of an accident. In addition to these benefits, a levy on each Green Slip provides anyone injured in a NSW motor accident with access to public health and ambulance services free of charge.

Compensation benefits under the Scheme are fully funded from Green Slip premiums. The Scheme is privately underwritten by CTP insurers who are licensed to sell Green Slips and overseen by SIRA. Green Slip insurance is compulsory for all vehicle owners in NSW.

Claims are managed by the CTP insurer of the at-fault vehicle. The Nominal Defendant Fund ensures that those injured by uninsured or unidentified vehicles are also able to claim scheme benefits.

Compensation entitlements and duties of the insurer are set out in the *Motor Accidents Compensation Act NSW 1999* (the MAC Act).

The new CTP scheme, expected to commence on 1 December 2017, introduces a hybrid CTP scheme that provides a mix of fault and no-fault benefits as well as common law entitlements for those with more serious injuries who were not at fault.

1.3 State Insurance Regulatory Authority

The State Insurance Regulatory Authority (SIRA) is a statutory body established by Parliament on 1 September 2015 under the *State Insurance and Care Governance Act 2015*.

Our functions, which are set out under Section 206 of the MAC Act, are to:

- monitor the operation of the motor accident Scheme and in particular to conduct (or arrange for other persons to conduct) research into and to collect statistics or other information on the level of damages awarded by the courts, the handling of claims by insurers and other matters relating to the Scheme
- advise the Minister as to the administration, efficiency and effectiveness of the Scheme
- publicise and disseminate information concerning the Scheme
- issue and keep under review relevant guidelines under the MAC Act
- provide an advisory service to assist claimants in connection with the claims assessment procedure under the MAC Act
- provide funding for measures for preventing or minimising injuries from motor accidents and safety education

- monitor services that provide acute treatment, rehabilitation, long-term support and other services for persons injured in motor vehicle accidents and provide support and funding for programs that assist in injury management including research and education.

We set statutory guidelines which insurers must comply with as a condition of their licence. We monitor compliance, investigate complaints about insurer behaviour, and take regulatory action in respect of breaches of obligations.

We operate an independent assessment and dispute resolution service as a free alternative to the court system for medical and claims disputes between injured people and insurers. This process is administered by the Dispute Services Division and includes the Medical Assessment Service (MAS) and the Claims Assessment and Resolution Service (CARS).

2. Market

2.1 Background

The Scheme is underwritten by private insurance companies who are licensed by SIRA to sell Green Slip insurance. During 2015/16, there were seven licences operated by five insurance companies – AAMI, Allianz, CIC Allianz, GIO, NRMA, QBE and Zurich.

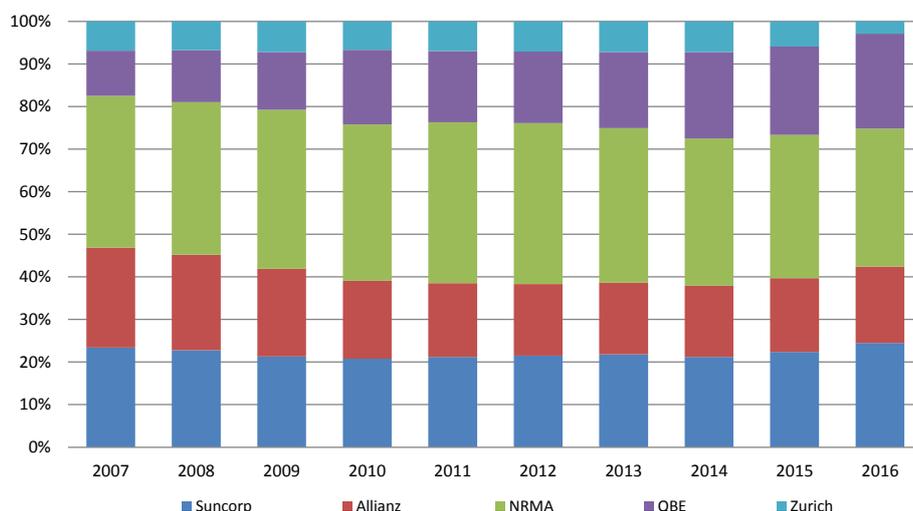
SIRA has not issued any new licences to sell Green Slip insurance since 2001.

The graph below shows movements in insurer market share by premium between 2007 and 2016. Over the past nine years, QBE has gained significant market share of 11.7 per cent.

2.2 Key facts as of June 2016

- Seven licences held by five insurance companies – Allianz (holds the Allianz and CIC-Allianz licences), NRMA, QBE, Suncorp (AAMI and GIO licences) and Zurich
- AAMI, GIO, and NRMA compete mainly in the retail segment
- Zurich - before its exit - and CIC-Allianz competed in the non-retail commercial vehicle market
- QBE and Allianz operate in both segments of the market
- AAMI, Allianz and NRMA lost substantial market share from 2007 to 2016
- NRMA has lost 5.4 per cent in market share since 2011, a significant amount in a relatively short period of time.

Insurer market share (by premium)



2.3 Withdrawal of insurer from the CTP market

As stated in the 2015 report, Zurich ceased selling Green Slips in March 2016. Since exiting the market, Zurich has held a modified licence for the continued management of existing and new claims made against their policies. Zurich's exit does not impact claimants' access to benefits. Despite some impact in smaller market segments such as

heavy goods carrying vehicles, Zurich's exit has not had a significant impact on competition in the Scheme given their focus on the non-retail commercial segment.

2.4 Outlook

SIRA was not processing any licence applications, nor were we aware of any pending applications at the time of preparing this report.

As reported last year, barriers for new entrants to the Scheme include: costs of a long tail scheme, investment in specialist staff and risks of quickly building a balanced portfolio.

In addition, the Scheme has cross-subsidies in place to ensure that CTP premiums are affordable for all vehicle owners. However, the increasing amount of cross-subsidisation within the Scheme stifles competition among existing insurers and discourages new entrants to the market.

Regulatory measures implemented following the independent review of insurer profit and competition, including the risk equalisation mechanism, will better manage cross-subsidies in the Scheme and will encourage new insurers to enter the market.

Legislative measures, which will be introduced on commencement of the MAI Act, will further strengthen the regulatory framework and improve transparency and market competition.

3. Premiums

3.1 Background

The Motor Accidents Scheme in NSW is underwritten by private insurers who set their own Green Slip premiums in a competitive market. Green Slip premiums are not set by the government.

Green Slip premiums are determined in accordance with the MAC Act, business rules and SIRA guidelines, which are 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. To differentiate premiums, insurers may use a variety of objective risk-rating factors, within limits prescribed by the *Premiums Determination Guidelines*.

The MAC Act requires insurers to file proposed Green Slip premiums with SIRA at least once a year (or a longer approved period). The MAC Act provides SIRA with limited power to reject a premium based on whether we are of the opinion that the premium:

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

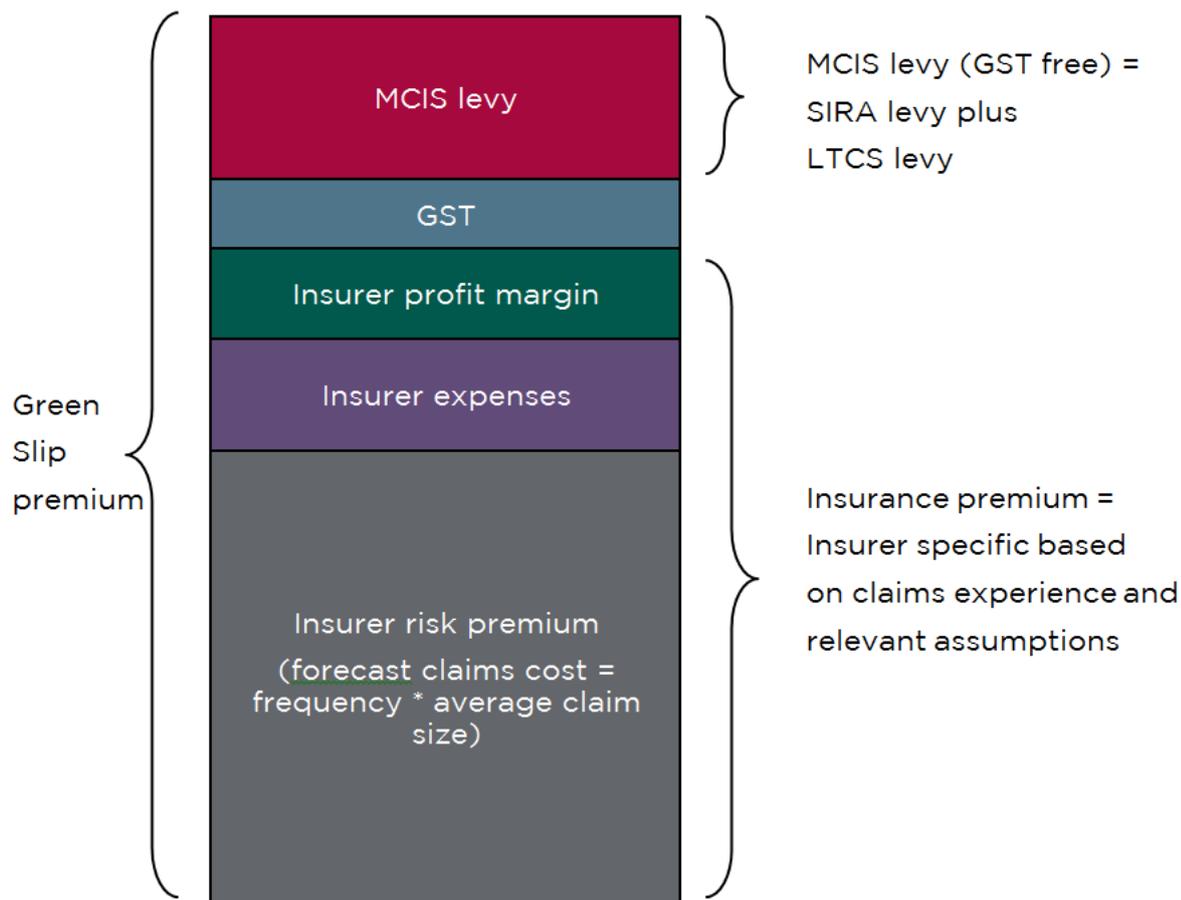
Each insurer filing is reviewed by an independent actuary engaged by SIRA (currently Ernst & Young) to provide actuarial advice to assist in decision making.

Premiums paid by motorists cover the cost of claims, as well as insurers' claims management costs, costs relating to the insurers' administration of insurance policies, insurer profit, GST and the Medical Care and Injury Services (MCIS) levy.

The MCIS levy is used to fund:

- public hospital and ambulance costs of all road accident victims
- treatment, rehabilitation, care and support associated with lifetime care claims
- the operation of SIRA and its services.

Components of a Green Slip



We allow risk-based pricing within certain limits to keep premiums affordable and promote competition and innovation by insurers. The existing premium framework is a blend of both risk-based and community rated approaches to ensure that premiums are affordable for all motorists. For the most part, Green Slip premiums reflect the underlying risk, so good risks subsidise poor risks within certain limits. The cost of CTP Green Slips for some motorists (for example, young drivers) would be unaffordable if the cross-subsidy was not included, and the community would be exposed to these motorists driving their vehicles uninsured and unregistered.

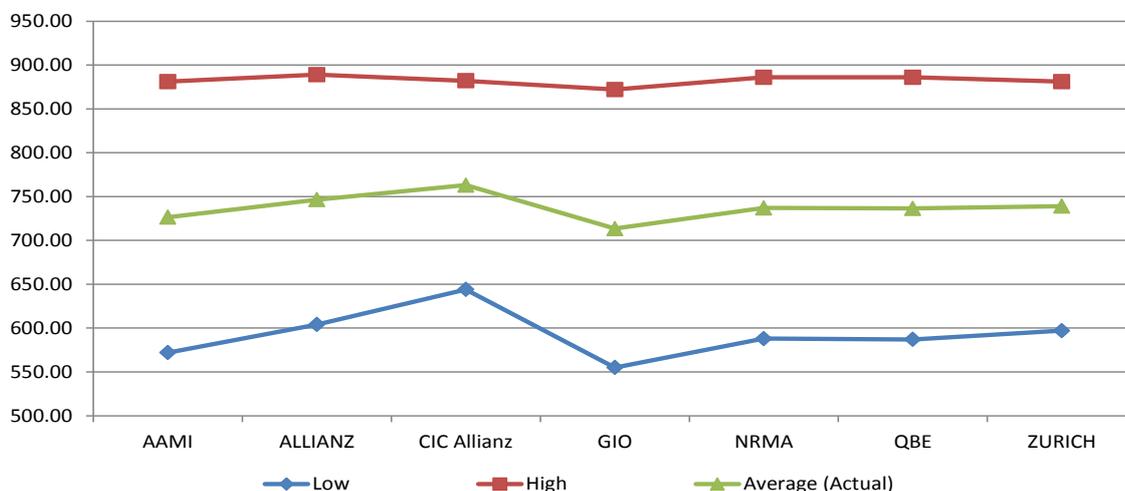
Prices are calculated for each region and vehicle class. There are five regions in NSW and 33 vehicle classes. Just over 41 per cent of the total vehicle fleet are 'Class 1' passenger vehicles in the Sydney metropolitan region.

Having set the base premium, an insurer can apply any objective risk-rating factor (except postcode, gender, race, policy duration or GST status) to offer a discount or impose a loading on a Green Slip premium. Insurers use the age of the owner/driver as the primary rating factor. Other rating factors include the age of the vehicle, comprehensive insurance status and driver safety record including claims history and demerit points.

The range of discounts and loadings that insurers can apply are determined by SIRA. Currently the maximum discount (or bonus) is 15 per cent, except for drivers over 55 who can receive a 25 per cent discount. The maximum loading is determined using a formula set by SIRA. The maximum loading varies by insurer, but is currently around 30 per cent on average. The extent of cross subsidies in the Scheme is determined by the extent to which an insurer is able to risk rate individual policies.

The graph below illustrates the premiums charged by insurers (GST & MCIS levy inclusive) for a passenger vehicle garaged in the Sydney area. The maximum premium that a high risk (e.g. 17 year old) paid is \$889. Depending on the insurer, a low risk would have paid between \$555 and \$644.

Green Slip pricing spread for a Sydney passenger vehicle¹ as at 30 June 2016



The use of the discount and loading structure reflects the different prices available in the Green Slip market and promotes competition between the licenced insurers. As each insurer may apply risk factors differently based on their experience, there can be quite a lot of variation between insurers. We encourage motorists to shop around to compare the prices available in the market using the free price comparison calculator on our website.

3.2 Key facts

Compared to June 2015, the average premium increased by \$45 as at June 2016

Average premium including MCIS levy and GST	June 2015 (\$)	June 2016 (\$)	Difference (\$)	Difference (%)
Sydney car owners	614	674	\$60	9.9% increase
All NSW passenger vehicles	542	585	\$43	8.0% increase
All vehicles in NSW	575	620	\$45	7.9% increase

Despite price increases during 2015/16, it does still pay to shop around. For Sydney metropolitan passenger vehicle owners, aged between 30 and 54, the best Green Slip available was with GIO at \$555 compared with QBE's best price of \$587 (levy and GST inclusive as at 30 June 2016). This represents a saving of \$32.

¹ Based on private use with the youngest driver aged 30 to 54.

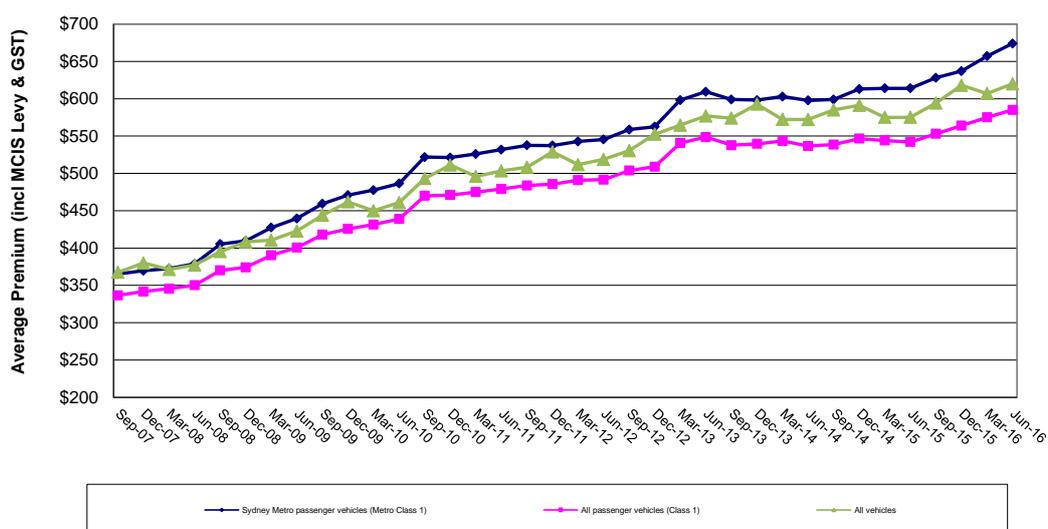
Sydney passenger vehicle headline price² by insurer

Insurer	30 June 2014 (\$)	30 June 2015 (\$)	30 June 2016 (\$)
AAMI	524	505	572
GIO	519	509	555
Allianz	542	539	604
CIC Allianz	565	546	644
NRMA	532	545	588
QBE	509	519	587
Zurich	547	548	n/a

Note: these premiums include MCIS Levies and GST

The long term trend shows Green Slip prices increasing, despite some stabilisation in growth in 2014 and 2015.

Average Green Slip price (MCIS levy and GST inclusive)



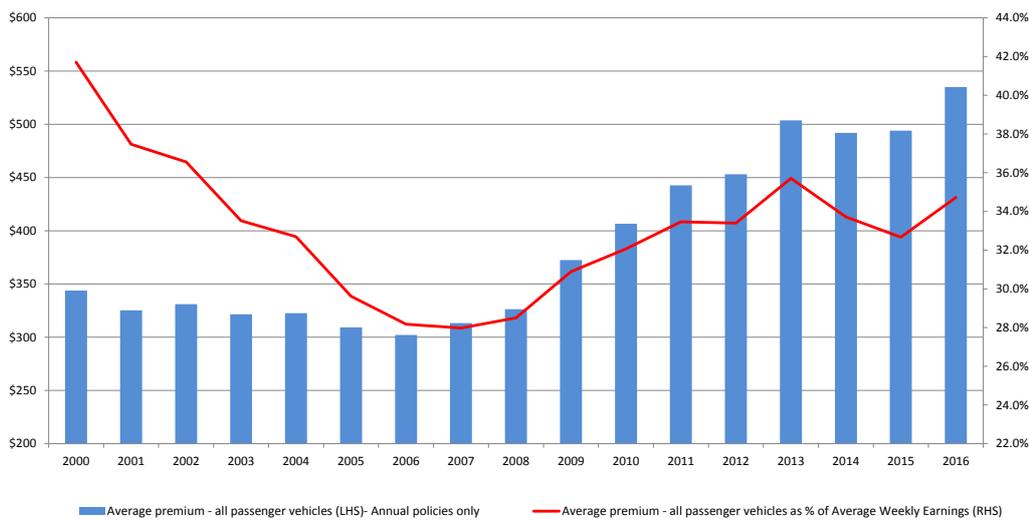
The average Green Slip premium for all passenger vehicles as a percentage of average weekly earnings (AWE) has increased from approximately 33 per cent in 2015 to 35 per cent in 2016.³

Between 2008 and 2013, affordability of Green Slip premiums deteriorated. At its peak in 2013, the cost of Green Slips represented 36 per cent of AWE. Despite a slight improvement in real terms in 2014 and 2015, price increases since 30 June 2016 indicate that this trend is reversing.

² Headline price is the best price offered for a new customer private use Sydney passenger vehicle, youngest driver aged 30 to 54.

³ The affordability of a Green Slip is measured by comparing the average Green Slip price for all passenger vehicles (including the MCIS levy but excluding GST) with the NSW AWE. The lower the ratio the more affordable premiums are considered to be.

Premium as a proportion of NSW AWE



Note: These premiums are as at 30 June for annual policies and exclude GST

3.3 Outlook

Based on recent claims trends and costs, which are not yet fully reflected in current prices paid by all NSW motorists, further price rises would be expected without scheme reform. Average prices have already increased by 7 per cent (or \$42) for a Sydney passenger vehicle since 30 June 2016.

The commencement of the MAI Act on 1 December 2017 is expected to result in an average decrease in premiums, state-wide, of around \$120 (or 20 per cent).

4. Analysis of cost drivers in the scheme

4.1 Background

Factors underpinning the increase in Green Slip prices include:

1. claims frequency and propensity to claim
2. legally represented minor injury claims
3. claims costs
4. ANF benefits.

The impact of these cost drivers is more pronounced due to insurers' diminished investment returns because of the decline in Commonwealth Government Bond yields and inflation.

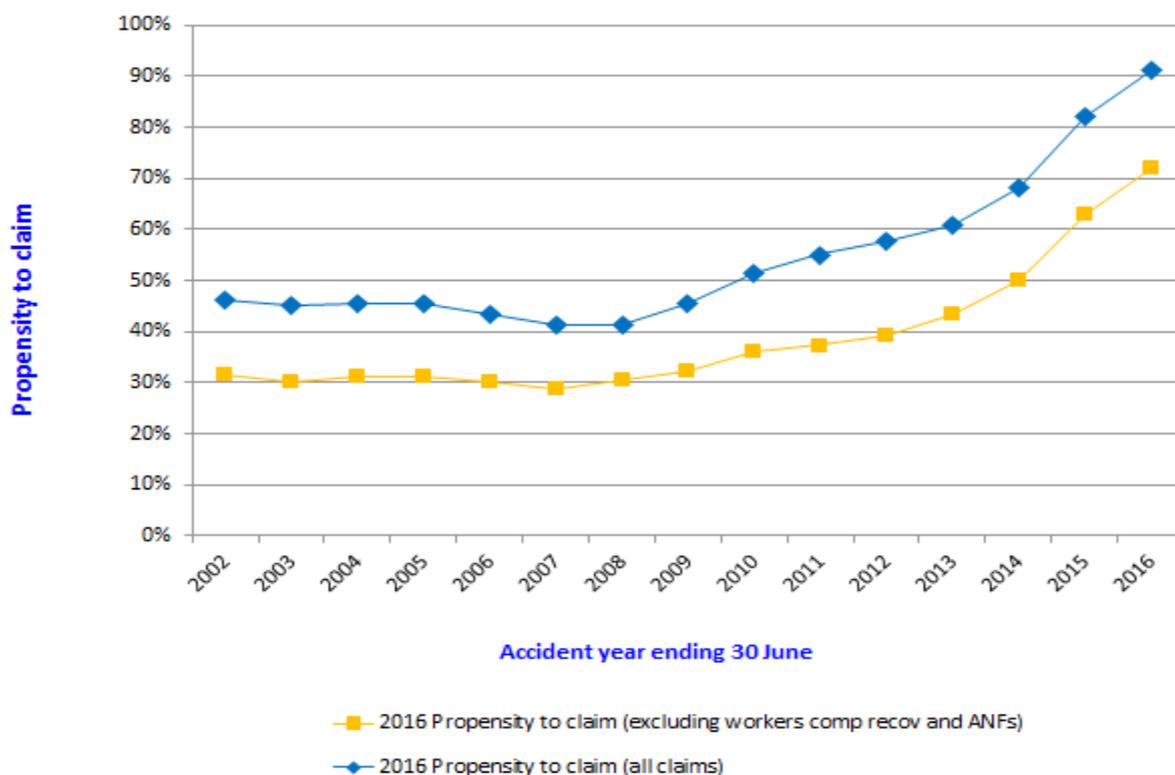
4.2 Cost drivers

Propensity to claim and claim frequency

In the context of decreasing casualties, the increase in claim frequency is due to increasing propensity to claim. Propensity is the ultimate number of claims divided by the number of road casualties.

Propensity has been steadily increasing since 2008. In 2016 propensity to claim was 91 per cent, compared to 81 per cent in 2015. The 2016 propensity figure equates to an annual increase of 10 per cent per year between 2008 and 2016.

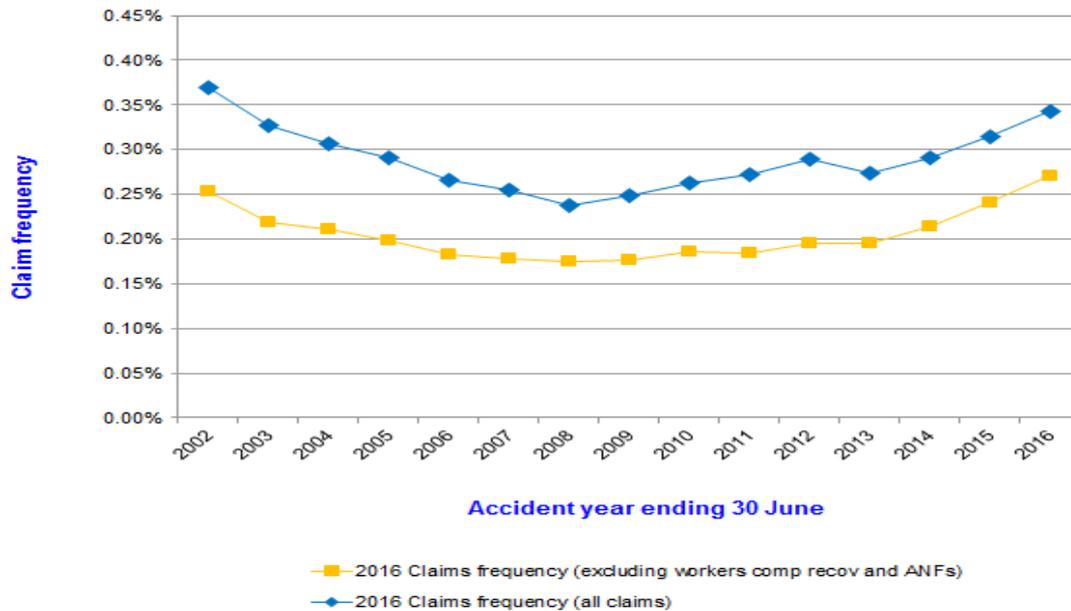
Propensity to claim by accident year



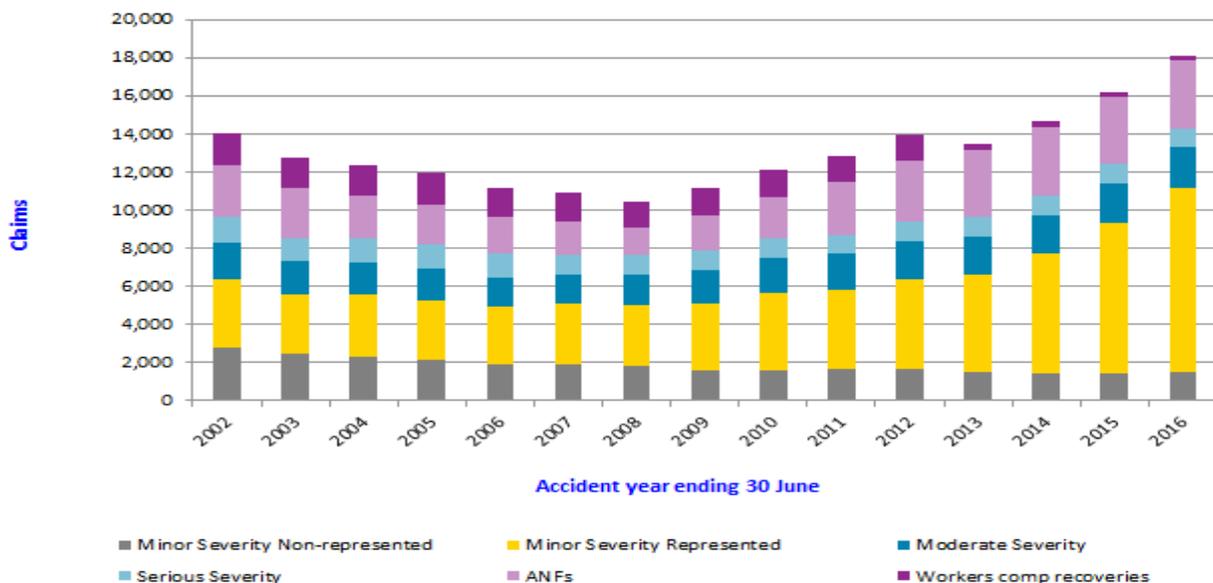
Overall claim frequency (all claims) reduced steadily between 2002 and 2008, and has been increasing thereafter, except for a slight reduction in 2013 reflecting the legislative changes to NSW workers compensation journey claims. Legally represented minor severity claims have contributed to the increase in recent years.

Between 2008 and 2014, claims frequency for full increased from 18 to 21 claims per 10,000 vehicles. Full claim frequency has continued to increase markedly, reaching 27 claims per 10,000 vehicles in 2016.

Claim frequency by accident year

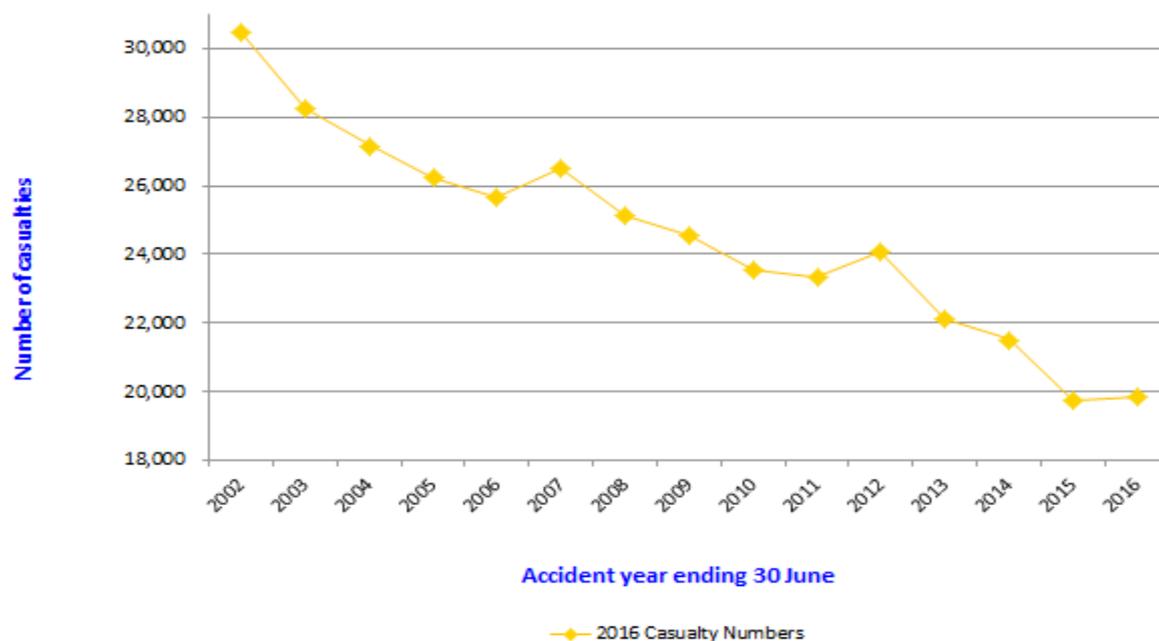


Ultimate number of full claims and Accident Notification Forms



The number of not-at-fault Accident Notification Forms (ANFs) has increased significantly since 2008, rising by 82 per cent overall between 2008 and 2016, following the increase in the ANF threshold.

Casualty numbers



Casualty numbers have generally been decreasing since 2002. Up to 2014 the annual reduction was about 2 per cent per annum but incorporating the big drop in 2015 increases the long term average closer to 3 per cent per annum. Some years have seen a spike in casualty numbers, such as 2007 and 2012.

Claims for minor severity injuries with legal representation

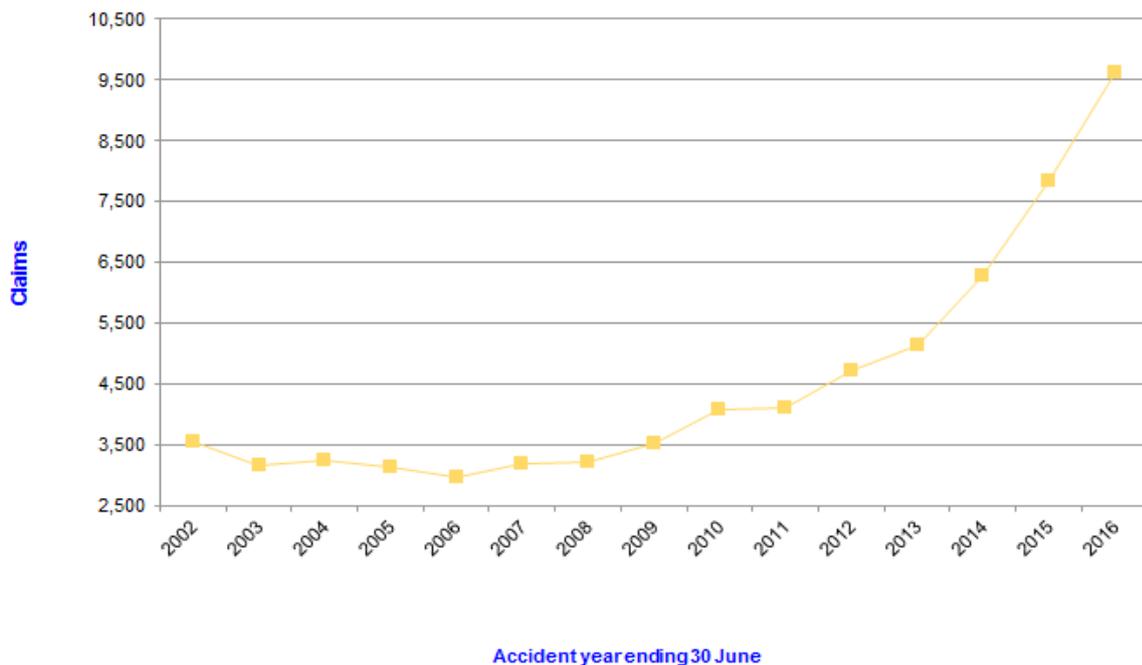
The increase in claim numbers coincides with the increasing number of legally represented minor injury claims. The number of legally represented minor injury claims increased by 23 per cent (or 1,782 additional claims) between 2015 and 2016. Between 2008 and 2016, there was an overall increase of 200 per cent.

The proportion of minor claims that are legally represented has increased from 64 per cent in 2008 to 86 per cent in 2016. Whereas some claimants engage legal representation at the very start of a claim, others do not seek legal representation until later in the claim life cycle. The number of full claims lodged with legal representation in the first year following the accident reached 60 per cent in 2016, compared to 37 per cent in 2008.

Between 2008 and 2016, claim frequency for legally represented minor severity injuries increased by 250 per cent overall. The year-on-year increase in frequency was particularly significant in 2014 (19 per cent), 2015 (22 per cent) and 2016 (20 per cent).

The increase in minor severity injury claims with legal representation has led to a parallel increase in insurer claims handling expenses, a component of the premiums charged by each insurer. Claims handling expenses increased to \$90 million in 2016, representing 4 per cent of the average premium, compared to \$58 million in 2008.

Ultimate number of claims for legally represented minor severity injuries

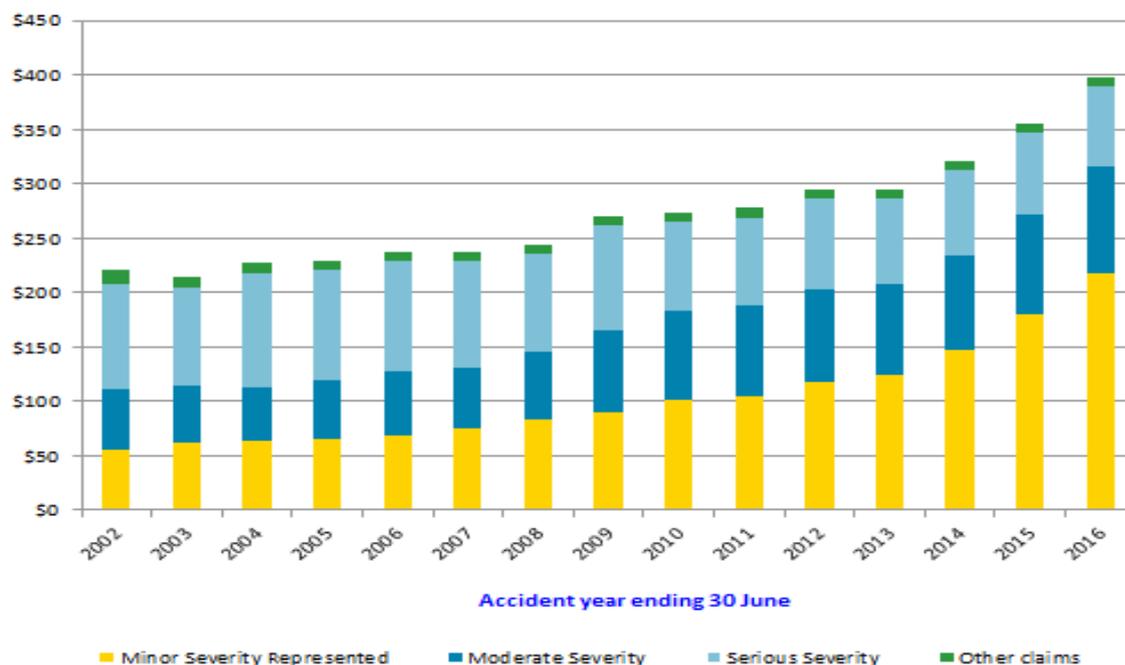


Claims costs

The overall claims cost per policy has increased since 2008, with more significant increases being seen from 2013. The following graph shows the cost per policy inflated to the estimated time of payment. The cost per policy in 2016 is projected to be \$398, compared to \$295 in 2013. Of the \$398, the highest contributor is legally represented minor severity injury claims (\$218 or 55 per cent of the total), followed by moderate severity injury claims (\$99 or 25 per cent of the total) and serious severity injury claims (\$73 or 18 per cent of the total).

This compares to 2015, in which the claims cost per policy was \$355. Of the \$355, legally represented minor severity injury claims contributed \$179, or 50 per cent, of the total cost per policy. Projections suggest a stabilising of the claims cost per policy going forward.

Cost per policy for all claims and Accident Notification Forms



Other claims include non-legally represented minor injury severity claims, ANFs and workers compensation recovery claims.

The main driver of the cost increase since 2013 is therefore a higher claim frequency from people with minor severity injuries who are legally represented. Cost per policy for serious severity claims has been generally declining since 2002, mainly due to a decrease in claim frequency for serious severity claims (decreasing by 19 per cent since 2002). Other claims (workers compensation recovery claims, non-legally represented minor injury severity claims and ANFs) represent 2 per cent of claims cost.

Accident Notification Forms

On 1 October 2008, the maximum benefit available under the Accident Notification Form (ANF) was increased from \$500 to \$5,000. Further changes on 1 April 2010, saw the ANF extended to all injured road users, regardless of fault.

Claimant behaviour changed significantly after 1 October 2008 and the number of ANFs being lodged has increased significantly since then. In 2016, ANFs made up 20 per cent of total claim numbers. Most of these are not-at-fault ANFs.

Despite slowing significantly in the last three years, the ultimate number of not-at-fault ANFs increased by 82 per cent between 2008 and 2016. The ultimate number of at-fault ANFs increased steadily after they were introduced in 2010, but has been stable since 2014.

Investment income

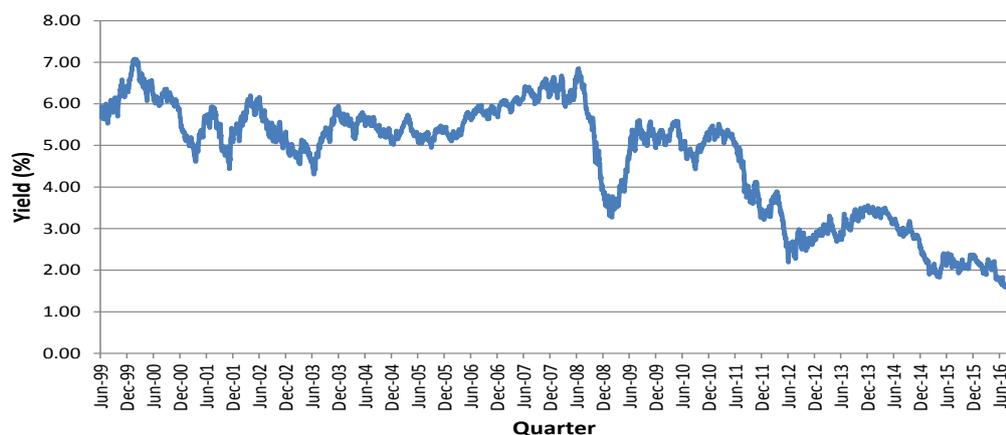
Unlike most insurance products, CTP insurance is considered to be 'long-tail' because claims are often finalised many years after the purchase of the related insurance policy. While some payments, like treatment expenses, are paid in the early stages of a claim, the lump sum compensation payment is not 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.

Commonwealth Government Bond yields have varied from around 7 per cent down to as low as the current 1.48 per cent, since the start of the Global Financial Crisis in 2008. Due to the long duration of claim payments, a 1 per cent decrease in yields would result in around a 4 per cent increase to Green Slip prices, to offset the reduction in investment income.

Trends in five year Commonwealth bond yields



The impact of the interest rate reductions between June 2015 and June 2016 is a 2.5 per cent or \$11 increase in the average Green Slip premium (excluding GST and MCIS levy), while the impact of the increase in wage inflation expectation was a 0.6 per cent or \$3 increase. It is anticipated that if interest rates fall by another 1 per cent, the average premium will increase by 4.2 per cent or about \$19 (based on an average insurer premium of \$449 excluding GST and MCIS levy).

One of the consequences of the Global Financial Crisis has been a long term reduction in investment income for CTP insurers, which subsequently increases the premium they must collect to ensure they have the funds to pay all future claims.

4.3 Outlook

As we reported in 2015, significant price pressure continues to build on the Scheme. Despite casualty numbers reducing, we have seen continued increases in propensity to claim, claim frequency and claims cost during 2016. These factors continue to place upward pressure on prices, which has been reflected in premium filings since June 2016.

The increase in minor injury claims with legal representation reported in 2015 has continued to grow in 2016, further contributing to increased overall scheme claims costs and, ultimately, more expensive Green Slip premiums.

During 2016, we implemented a range of measures to address unmeritorious or questionable claims that were making a significant contribution to increasing claims costs.

We developed a strategy to investigate and address fraud, focused on both deterring fraudulent behaviour via increased public awareness and eliminating fraud at the source by investigating and prosecuting perpetrators.

Recommendations coming out of the CTP Fraud Taskforce led to the establishment of Strike Force Ravens in August 2016, with detectives from the State Crime Command's Fraud and Cybercrime Squad investigating syndicates of criminal activity targeting the CTP scheme.

To date, Strike Force Ravens has led to the arrest of 10 people with more arrests expected in coming months. Charges laid so far relate to combined fraud of almost \$10 million, a cost that would otherwise be borne by the CTP scheme.

5. Sustainability

5.1 Insurer profit

5.1.1 Background

The *Motor Accidents Compensation Act 1999* (the MAC Act) places a number of requirements on insurers regarding the filing of premiums and provides that the Authority may only reject a premium under certain circumstances, including if it will not fully fund the liabilities or if it is excessive. Section 27(8)(c) of the MAC 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'.

Section 28(1) requires licensed CTP insurer to disclose to SIRA the profit margin on which a premium is based and the actuarial basis for calculating that profit 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 MAC Act.

SIRA's assessment of realised profit, based on objective criteria, requires a review of the development of the underwriting year from the time of the premium filing. There is considerable uncertainty in predicting the likely number and cost of claims that are yet to be made against policies sold in a given year; while the premium filing includes the insurers' prospective estimates of the profit margin, the actual profit or loss that an insurer may ultimately make will depend on the extent to which the other assumptions in the filing, such as estimated claims costs, prove to be correct. Estimates are based on past history, so insurers must necessarily make conservative estimates to ensure future liabilities will 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 underwriting 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 are realised, a natural by-product of insurance underwriting practice in a long-tail common law scheme. 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:

- premium income
- plus investment income on premiums
- less insurers' expenses excluding claim handling expenses
- less claim payments (which include plaintiffs' and defendants' legal costs and claim investigation costs)
- less insurers' claim handling expenses.

Since the previous report, the approach to discounting claim payments to allow for investment return on premium income has been revised. As a result, the historic profit estimates (profit assessment in older reporting years) have been recalculated using the revised methodology and are shown in this report. These estimates will differ from those published in previous reports but are consistent with the latest profit, as assessed at 30 June 2016.

In this section the Scheme actuary has provided the analysis in relation to insurer profit, superimposed inflation and scheme efficiency. Following the 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.

5.1.2 Key facts

The table on the next page compares estimated profit:

- by accident year ending 30 June, using data up to 30 June 2015 (restated to allow for the revised discounting approach)
- by accident year ending 30 June using data up to 30 June 2016.

The estimated profit has decreased for some accident years since the previous valuation. In particular this is the case for accident years 2011, 2012 and 2013. This is partially offset by an increase in the estimated profit for accident year 2015.

The estimate of insurer profit has decreased since the previous valuation for accident years prior to 2016. In the 2011, 2012 and 2013 accident years, this is particularly evident where the projected profit amounts are \$10 million, \$23 million and \$19 million lower respectively, producing a small decrease in the profit margin for these years of around 1 per cent. These reductions are partially offset by the 2015 accident year, where the projected profit has increased by \$21 million, producing a 1 per cent increase in the profit assessment for the 2015 accident year.

It is important to note that the total profit margin figure of 20 per cent based on the 2016 analysis is calculated on a different basis to the profit margin quoted in the NSW Government's March 2016 position paper titled *On the road to a better CTP scheme: Options for reforming Green Slip insurance in NSW*. The analysis above considers premiums that exclude the MCIS levy and bulk billing costs, which are included in the position paper. Including these additional components in an updated assessment of scheme profitability would result in a profit margin of 19 per cent.

Loss ratios are broadly consistent with the assessment using data to 30 June 2015, with minor changes from accident year 2012 onwards. Loss ratios for 2012 and 2013 accident years in particular, have increased by 1 per cent which reflects the increase in the discounted claims cost for these years using data to 30 June 2016. A reduction in loss ratio of 1 per cent in the 2015 accident year reflects a reduction in the discounted claim estimate over that year. The overall scheme loss ratio assessment is unchanged at 61 per cent for accident years prior to 2016.

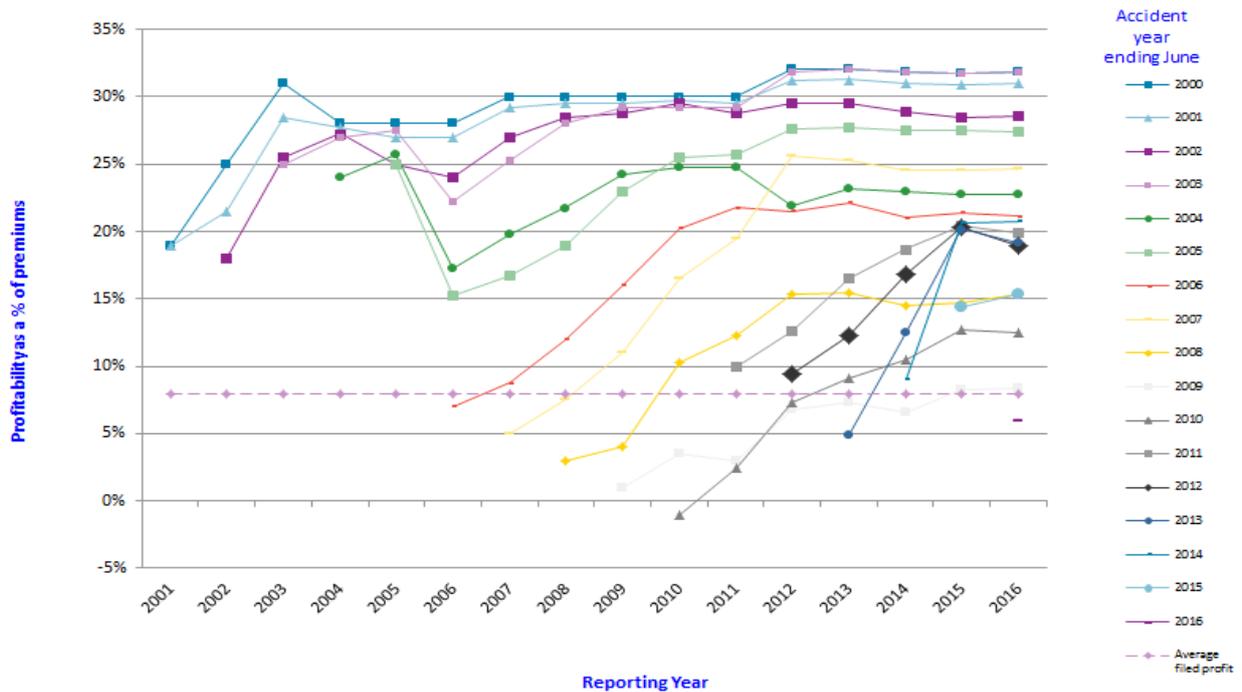
Comparison of profit by accident year ending 30 June

Accident year	Profit by accident year using June 2015 data			Profit by accident year using June 2016 data		
	Profit	Profit margin	Loss ratio	Profit	Profit margin	Loss ratio
	(\$m)	(%)	(%)	(\$m)	(%)	(%)
2000	476	32	53	478	32	53
2001	408	31	52	409	31	52
2002	377	29	54	378	29	54
2003	430	32	51	432	32	51
2004	324	23	59	323	23	59
2005	406	28	54	404	27	54
2006	309	21	59	305	21	59
2007	340	25	57	342	25	57
2008	176	15	65	183	15	65
2009	100	8	72	101	8	72
2010	175	13	69	173	13	69
2011	322	20	63	312	20	63
2012	349	20	63	326	19	64
2013	371	20	64	352	19	65
2014	424	21	65	426	21	64
2015	310	14	70	332	15	70
2016				135	6	79
Total	5,298	22	61	5,410	20	63
Total excluding 2016	5,298	22	61	5,275	22	61

The figure on the next page shows the history of Green Slip insurer profit for each accident year.

The profit margin was very high for accident years 2000 to 2005, but this is not without precedent. The first two years of the MAC Act also produced very high profits. Profit margins for more recent accident years up to 2015 are lower, but still significantly above the average file profit margin of 8 per cent. The lower level of profit for the 2016 accident year (6 per cent) in part reflects the impact of increased numbers of minor severity legally represented claims, which were not fully reflected in the premium rates filed by insurers.

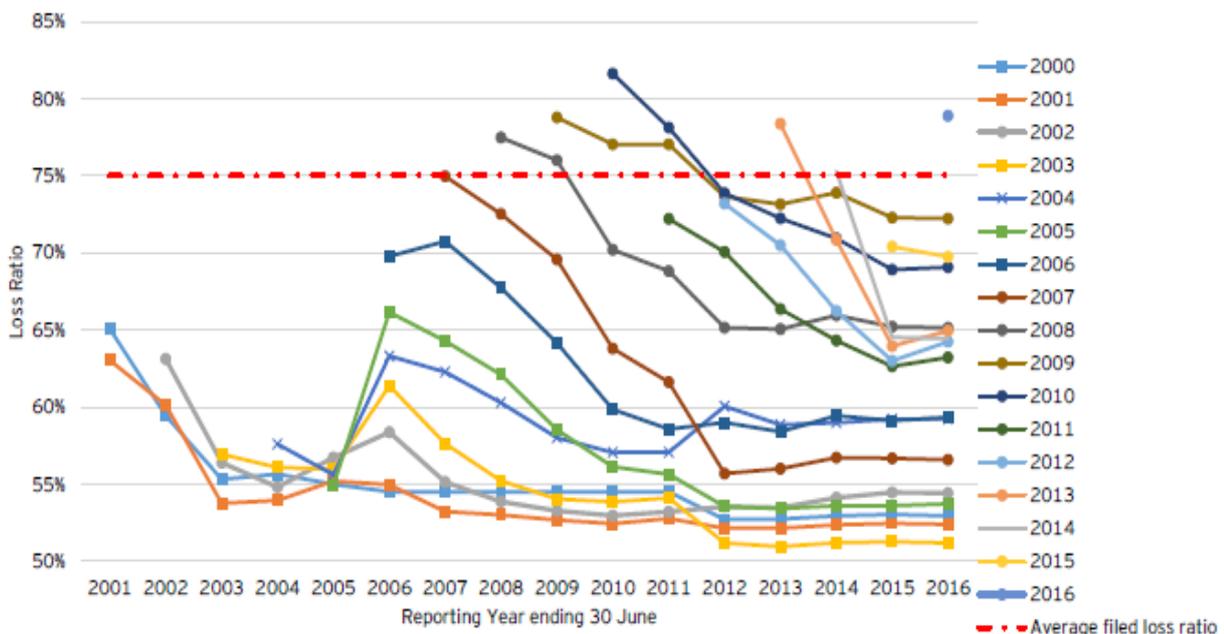
History of CTP Green Slip insurer profit for each accident year



The figure below shows the history of Green Slip insurer loss ratios for each accident year. The loss ratio was very low for accident years 2000 to 2007 and considerably below the average filing assumption. For accident years 2008 to 2016 loss ratios have been higher, although still in general below the average filing assumption.

Over time the loss ratio assessments have improved as claim projections are replaced with claim payments. Overall, loss ratios have consistently emerged below the average filing assumptions. The causes are the same as the drivers for increases in profit margin.

History of CTP Green Slip insurer loss ratio for each accident year



The costing of legislative reform is difficult and results are more uncertain due to the lack of past claims experience. For accident years 2000 to 2004 the three key reasons for high profits and low loss ratios were:

- lower than anticipated superimposed inflation
- greater than anticipated effects of the 1999 legislative changes
- greater than anticipated reduction in claims frequency in the first years of the new scheme.

For accident years from 2005 to 2015 the main reasons for high profits and low loss ratios were:

- the continuing decline in claim frequency through 2005 to 2007, which was greater than insurers and actuaries anticipated
- continuing benign levels of superimposed inflation which each year have been less than that assumed when the business was written
- lower than assumed average claim sizes due to increases in the frequency of minor severity legally represented claims which are typically lower in cost.

For accident year 2016 the main reason for the reduced profit and higher loss ratio is the continued increase in claim frequency, which insurers have been slow to reflect in their filed premium rates. This is partly offset by lower than assumed levels of superimposed inflation.

5.1.3 Comment

As reported in 2015, the final report of the independent review of insurer profit and competition within the NSW CTP scheme was released in March 2016. Since that time we have introduced a number of regulatory measures to address profit, implementing 10 of the 21 recommendations from the report, including new principles based *Premiums Determination Guidelines* and a more active supervisory approach to insurer premium filings. A risk equalisation mechanism will also be implemented on 1 July 2017 to better manage risk and share scheme cross-subsidies.

The report identified a number of legislative measures, including the abolition of the fully funded test to prevent overly conservative premium filings, limiting agent commissions and insurer expenses to reduce scheme costs, and increasing SIRA's powers to monitor and analyse insurer profits. These measures were considered by the government as part of the Scheme reform program and will be introduced when the MAI Act commences.

The MAI Act also introduces a profit normalisation mechanism, reduced incentives for fraudulent and exaggerated claims and greater certainty for insurers around benefits and timeframes to further eliminate excessive insurer profit.

5.2 Superimposed inflation

5.2.1 Background

Superimposed inflation (i.e. increases in claims costs over and above normal 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.

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 emerging. In particular, historic superimposed inflation has been calculated in the following ways:

- The average size of finalised claims by payment year has been calculated. The year-on-year increase in average claim sizes on this basis has then been used to estimate the scheme level superimposed inflation for a particular payment year.
- In addition, to better understand the drivers of the scheme level superimposed inflation, superimposed inflation by injury severity and whole person impairment (WPI) segments has also been analysed. For WPI segments, claims have been split into claims with WPI greater than 10 per cent and those with WPI less than or equal to 10 per cent.
- The injury and WPI segment analysis has been carried out by applying a statistical model to the historic claims data in order to attribute trends in average claim size by payment year, as well as trends by accident year and development delay. The findings from these analyses have then been used to inform the assessment of the historic level of superimposed inflation at a more granular level.

5.2.2 Key facts

Analysis indicates that:

- the profit margins of insurers are highly sensitive to different superimposed inflation scenarios. It is expected that recent accident years will have larger profit variability as a significant portion of claims cost for these years is unpaid. For the 2016 accident year, profit margin varies by 4 per cent for every 1.65 per cent change in superimposed inflation.
- since 2003, the average superimposed inflation has been approximately 1 per cent. Superimposed inflation has been benign for the last seven years and has been approximately zero from 2010 to 2012, negative in 2013 to 2015 and 2 per cent for 2016. Overall there has been a small reduction in the finalised claim sizes (a small negative SI of -2 per cent p.a.) from 2010 to 2016.
- at an overall scheme level, it appears that superimposed inflation has been relatively benign since the 2010 payment year. Considering the result at an overall scheme level is misleading however because it masks the impact of changes in the claims mix that have occurred over this time, particularly in the CTP scheme which has experienced an increase in minor severity legally represented claims with WPI less than or equal to 10 per cent. As these claims have a lower average claim size than the rest of the Scheme, the average claim size for the Scheme has been decreasing as a result of this mix change. This is reflected in negative or benign superimposed inflation at the overall scheme level.

5.2.3 Comment

At an aggregate level, whilst superimposed inflation appears benign, this masks the strong superimposed inflation observed for minor injury severity claims as well as for moderate and serious severity claims with WPI less than or equal to 10 per cent. For

example, for 2009 onwards minor severity claims with WPI less than or equal to 10 per cent have experienced around 3 per cent p.a. superimposed inflation.

The design of the new Scheme is aimed at reducing the need to negotiate entitlements as well as increasing the proportion of benefits provided to those that are the most seriously injured. These features are expected to dampen the pressure from superimposed inflation from minor injury severity claims.

We recognise that the absence of superimposed inflation (at an aggregate level) is a factor that has contributed to higher than anticipated insurer profits in the Scheme and at times has been the significant driver of increases in claims costs and premiums. We continue to heavily scrutinise the level of filed superimposed inflation assumption filed by insurers in light of the benign levels of superimposed inflation in the Scheme. Noticeably, the filed level of assumed superimposed inflation, as an industry, is lower than the assumptions filed 12 months ago.

5.3 Efficiency

5.3.1 Background

Efficiency is a key measure of scheme performance and can be viewed by stakeholders as an indicator of value for money. Efficiency is defined as the proportion of premium paid as claims cost. The Lifetime Care and Support scheme is excluded from the efficiency analysis since it is not managed by the insurers.

Unlike the previous 2015 report, the definition of efficiency in this report is consistent with definitions adopted by other accident compensation schemes in Australia. GST is also excluded from the calculation and contracted out legal costs have been allowed for in the results shown below based on analysis of the NSW CTP Claims Cost Disclosure (CCD) project data, which was collected by SIRA since late 2015. Plaintiff lawyers provide the Claims Cost Disclosure data to SIRA which includes contracted out legal costs. For the first time this data provides full transparency of all legal costs in the Scheme.

Scheme efficiency was less than 50 per cent up to 2008 and since then has varied between 49 per cent and 60 per cent. Efficiency for the accident year ending June 2016 is projected to be 57 per cent and is the highest for the Scheme to date. Although this accident year is also subject to the largest uncertainty given the limited payments made to date for the accident year.

Claims experience - and hence efficiency - varies across years, therefore efficiency should be assessed on a longer term basis. Projected average efficiency for the latest five accident years is 52 per cent and over the lifetime of the Scheme the average efficiency is estimated to be 47 per cent. Note this is higher than the 45 per cent efficiency figure quoted in the NSW Government's March 2016 position paper titled *On the road to a better CTP scheme: Options for reforming Green Slip insurance in NSW*, because of a refinement to the calculation of contracted out legal costs and also the inclusion of a further 12 months of scheme experience.

5.3.2 Key facts

Since the commencement of the Scheme in 1999, injured people are receiving an average of 47 per cent of CTP scheme premiums collected by insurers. This does not include GST or the Lifetime Care and Support levy. The remainder of funds go towards insurer expenses (15 per cent), insurer profit (19 per cent), legal and investigation

expenses (16 per cent inclusive of funds paid by claimants from their settlement to their lawyer) and other expenses involved in administering the Scheme (3 per cent).

The average level of insurer profits at 19 per cent is particularly high and more than double the average profit margin of 8 per cent assumed by insurer in premium filings. In addition legal and investigation costs at 16 per cent are a significant cost to the Scheme. The new scheme design is intended to address these areas and this is discussed further below.

5.3.3 Comment

One of the key objectives of the Scheme is to provide support to people who are injured on NSW roads, so the relatively poor efficiency ratio was of significant concern to the government, and a major driver for scheme reform.

The new scheme will improve efficiency, increasing the proportion of benefits provided to road users, particularly the most seriously injured.

Changes to scheme design, including the introduction of statutory benefits to enable earlier access to key benefits that encourage recovery, will significantly limit the need for claimants to retain the assistance of a legal professional to negotiate entitlements.

In addition, mechanisms introduced to reduce insurer costs and eliminate super profits will further improve efficiency, with the new scheme expected to return 57 cents of every premium dollar as benefits to injured people, of which 65 per cent will be paid to those with more serious injuries.

The new CTP scheme is expected to commence on 1 December 2017.

6. Claims and disputes

6.1 Background

As detailed in section 1.2 of this report, the CTP scheme provides a range of benefits for people injured in motor vehicle accidents in NSW. Entitlements can depend on the type and extent of a person's injuries, their personal circumstances at the time of the accident and whether or not the accident was their fault.

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

As the regulator of the Scheme, we issue guidelines that specify the practices required of insurers in managing claims, including practices related to the provision of medical treatment, rehabilitation and care (the *Motor accident guidelines: claims handling and medical (treatment, rehabilitation and care)*). We monitor insurer compliance with these guidelines (a condition of an insurer's licence), investigate complaints about insurer behaviour and take regulatory action in respect of breaches.

We also provide an alternative to court dispute resolution service for medical and claims disputes.

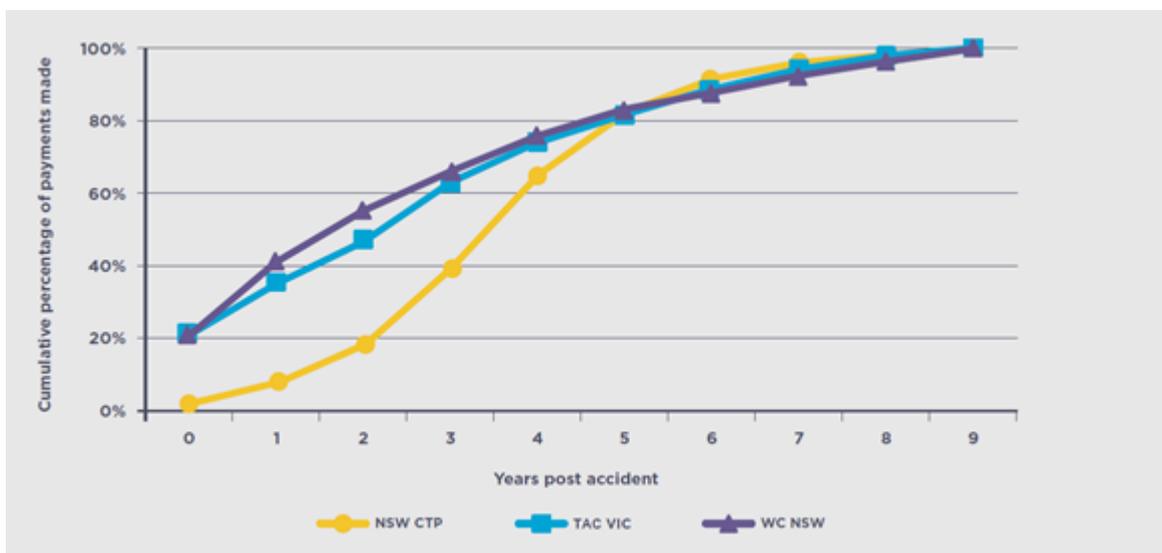
The Medical Assessment Service (MAS) provides independent, binding expert assessment of medical disputes about treatment and permanent impairment. The Claims Assessment and Resolution Service (CARS) provides a simpler, more accessible and faster way of assessing claims for compensation and resolving procedural disputes between an injured person and an insurer, outside the court system.

6.2 Key facts

Claims

The majority of payments in the Scheme are made between three and five years after the accident. This is much longer than statutory benefit schemes such as the Victorian Transport Accident scheme and NSW workers compensation scheme, where payments start almost immediately after a claim is made.

Percentage of claims paid post-accident date



The average time taken to lodge a full claim is 5.4 months from the date of accident.

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

The average time to lodge an Accident Notification Form (ANF) is 25 days after the accident.

Twenty-one per cent of not-at-fault ANFs were lodged after the 28 day time limit and 28 per cent of at-fault ANFs were lodged after 28 days. Of these, 54 per cent were lodged within one week of the 28 day time limit.

Claims take on average between one and four years to settle. Typically, claims for minor injuries settle in a relatively short time for below average cost and severe claims take longer to settle at higher cost.

In terms of total incurred cost of claims⁴, 50 per cent of payments would have been made by the end of the fourth year.

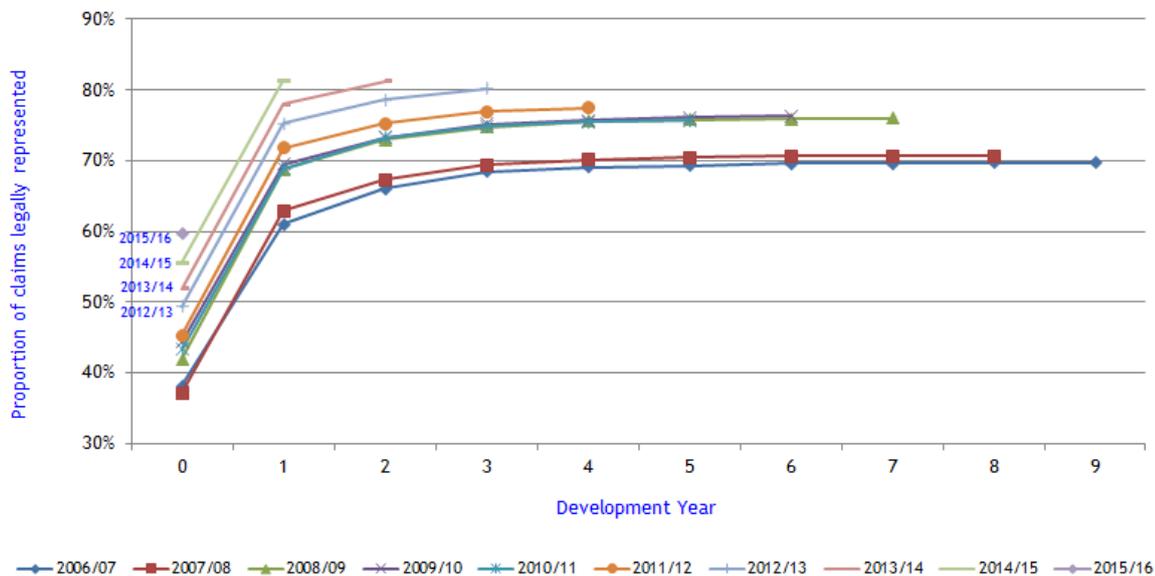
The Scheme received 18,006 injury notifications during 2015/16. 14,507 claims were finalised.

The Scheme paid \$1.26 billion in benefits in 2015/16, mainly for claims made in previous years. This compares with a total of \$1.41 billion in benefits paid in 2014/15.

The average payment on full claims finalised in 2015/16 was \$141,000.

Legal representation is occurring earlier in the life of a claim and the proportion of full claims with legal representation is increasing. The chart below shows the rate of legal representation for full claims by accident year and development year, i.e. the years following the accident. Workers compensation recoveries are excluded. For any development year, the current estimate of the proportion of full claims with legal representation is higher for accident years 2009/10 to 2015/16, than in prior accident years and also exceeds the ultimate proportion of legal representation in prior accident years where the claims experience has stabilised.

Proportion of claims that are legally represented by accident year and development year



⁴ Incurred cost = Payments made + Estimate of payments yet to be made

In NSW, males currently make up 49.6 per cent of the population and 51.2 per cent of licence holders but cause 62.3 per cent of crashes that result in injuries. In contrast, females cause only 35.9 per cent of injury crashes and in the remainder of cases the gender of the at-fault drivers is unknown.

Persons aged between 17 and 25 years currently make up 12.3 per cent of the population and 13.8 per cent of licence holders but cause 20.6 per cent of all injury crashes, which account for 25 per cent of all claims costs. Persons in the 50-69 year old category make up 21.5 per cent of the population and 31.1 per cent of licence holders but cause 22 per cent of injury crashes, their crashes accounting for 22 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 1.0 per cent of overall claims costs with an average incurred cost per claim of \$228,300. In contrast, drivers make up about half of all claims and have an average cost per claim of \$105,600.

We received 850 claims as Nominal Defendant during 2015/16 compared to 773 in 2014/15, an increase of 10 per cent. 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.

Medical Assessment Service

Medical Assessment Service (MAS) applications seeking an assessment rose 12 per cent (650) this year. Lodgements of medical disputes continued to rise in direct proportion to trends of increasing claims lodgements in earlier years, with the trend of lodgements expected to continue going forward. There were 5,417 applications lodged and 5,106 finalised.

Applications for permanent impairment disputes increased by 18 per cent in 2015/16, part of a 44 per cent increase over the past four years.

Applications for assessment of a treatment dispute fell to their lowest level in recent years to only 210 in 2015/16.

Applications for review of a medical assessment rose in volume by 10 per cent, however the rate of review applications was relatively stable compared to 2014/15, at around 19 per cent of total medical assessment applications made.

Permanent impairment disputes averaged 112 working days to resolve, a 9 per cent increase compared to 2014/15. 21 per cent of permanent impairment disputes were assessed at greater than 10 per cent permanent impairment.

Treatment disputes average 113 working days to resolve, down 3 per cent on 2014/15.

Further medical assessments averaged 124 working days to resolve, a 3 per cent increase from 2014/15.

Of the 5,106 applications finalised by MAS in 2015/16, 288 applications for review of a medical assessment were accepted and review panels changed the outcome in 113 cases. Obvious errors were corrected in 51 certificates. Administrative challenges resulted in 17 decisions set aside and remitted for a fresh decision to be made.

Claims Assessment and Resolution Service

Claims Assessment and Resolution Service (CARS) lodgements increased by 12 per cent in 2015/16, which was part of a 32 per cent rise over the last two years. This increase in applications flows directly from continued growth in claim lodgements.

The number of CARS applications for general assessment rose significantly by 11 per cent in 2015/16, while other dispute types remained relatively stable. Exemption from claims assessment applications rose again (by 284) after a significant decrease in 2014/15 following amendments to delegated legislation made after a court decision in *Smalley v Motor Accident Authority of New South Wales [2013] NSWCA 318 (26 September 2013)*.

There were 3,956 CARS applications lodged, and 3,877 matters were finalised.

Twenty-six 26 per cent of CARS applications proceeded to assessment in 2015/16, compared to 28 per cent in 2014/15.

Exemption applications were resolved on average within 13 working days.

General Assessments were resolved, on average, within 155 working days, a 10 per cent improvement from 2013/14 (173 working days).

Resolution of Special Assessments averaged 55 working days, a 19 per cent improvement from 2014/15 (68 working days).

Of the 1,795 assessment applications finalised by CARS in 2015/16, obvious errors were corrected in 17 certificates. Administrative challenges resulted in 5 decisions set aside by the court and remitted for a fresh decision to be made.

6.3 Comment

During 2016 we continued our work towards improving the experience for people injured in motor vehicle accidents, enhancing the information, support and advice available, and requiring insurers to comply with principles-based claims handling guidelines. The current scheme, which is adversarial in nature, imposes limited efficiency and increases stress for injured people who have to prove fault to be entitled to compensation and then negotiate a settlement to finalise their claim, often many years after their motor vehicle accident.

6.4 Outlook

As detailed throughout this report, the new MAI Act will deliver significant changes that will improve the experience of the injured person. The introduction of fault and no-fault defined benefits will provide fast access to treatment and rehabilitation as well as providing income support while the injured person recovers without the need to prove negligence on the part of another motorist.

The reforms will improve the claims process and provide enhanced support for injured people to make and manage their claims, and to navigate options for resolving disputes.

The Act establishes a new and enhanced dispute resolution model, requiring more robust decision making by insurers, and providing fair, flexible, fast and cost effective dispute resolution services for disputes to be resolved independently.

7.0 Glossary

Item	Description
Accident Notification Forms (ANFs)	The 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	Denotes the year in which the vehicle accident giving rise to the claim occurred. Accident years generally run from 1 July to 30 June.
Affordability	Average premium (including levies but excluding GST) charged in the quarter divided by average weekly earnings in the quarter. The higher this ratio the less affordable the premium.
Agents' commission	Refers to payments made to agents/brokers by insurers for writing CTP insurance on behalf of the insurer. The maximum commission payable for CTP insurance is 5 per cent of the insurance 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 as a result 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 handling expenses	Refers to expenses related to managing and administering CTP claims. These expenses include costs of claims staff managing claims, rehabilitation staff, managers and support staff.
Claims	The claims in the NSW CTP scheme are split into full claims, ANFs and workers compensation recovery claims.
Contracted-out legal costs	Costs payable to the legal practitioner representing the claimant, directly by the claimant, under an agreed private arrangement. These costs are not transparent in the insurer or scheme data held by the Authority.
Cost per policy	Total cost of claims divided by the number of insured motor vehicles in NSW.
Green Slip	This is also known as a CTP policy. The term 'Green Slip' dates back to the start of the NSW CTP scheme in 1989 where the CTP insurance invoice was a detachable green coloured slip.

Item	Description
Incurred claims cost	Claim payments to date plus case estimates.
Medical Care and Injury Services (MCIS) levy	Refers to a levy applied to the CTP insurance premium to fund the cover provided by the Lifetime Care and Support Scheme. Part of the MCIS levy is also used to fund the Authority and Bulk Billing arrangements for ambulance and hospital services.
Profit margin	Refers to 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.
Superimposed inflation	The increase in claim costs over time, over and above wage inflation.
Underwriting year	The year the CTP policy was sold.

Disclaimer

This publication may contain information that relates to the regulation of workers compensation insurance, motor accident third party (CTP) insurance and home building compensation in NSW. It may include details of some of your obligations under the various schemes that the State Insurance Regulatory Authority (SIRA) administers.

However to ensure you comply with your legal obligations you must refer to the appropriate legislation as currently in force. Up to date legislation can be found at the NSW Legislation website legislation.nsw.gov.au

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