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Date: 10 December 2019

Carmel Donnelly
Chief Executive
SIRA
GPO Box 2677
SYDNEY NSW 2001

Dear Ms Donnelly

Thank you for the opportunity to respond to the Independent Reviewer's (IR) Final Report (the Report) of the NSW Workers Compensation Nominal Insurer Scheme. The Report is the outcome of the Compliance and Performance Review of the NSW Workers Compensation Nominal Insurer Scheme (the Review), undertaken on behalf of the State Insurance Regulatory Authority (SIRA) by the Independent Reviewer.

icare's submission in response to the Final Report is attached.

icare looks forward to working with SIRA in addressing the Report's recommendations and the agreed Action Plan. icare is committed, in conjunction with its delivery partners, to continuing to work towards substantially improving services for our customers.

Yours sincerely

John Nagle
CEO and Managing Director
Insurance & Care NSW

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Response to Independent Reviewer's Final Report on the Nominal Insurer NSW Workers Compensation Scheme, for the State Insurance Regulatory Authority

10 December 2019

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icare Submission on Independent Reviewer's (IR) Final Report of the Compliance and Performance Review of the NSW Workers Compensation Nominal Insurer Scheme, for the State Insurance Regulatory Authority (SIRA).

As the operator of the NSW workers compensation scheme on behalf of the Nominal Insurer (NI), icare supports open and transparent reviews of the NSW workers compensation system. Effective oversight and transparency are essential to the health of the NI and the workers compensation scheme. The findings of the Review present an important opportunity to consider and reflect on the NI's performance insofar as it is covered by the Review's terms of reference. As always, icare is committed to working with SIRA to achieve the best outcomes for the people of NSW.

icare thanks the Independent Reviewer for her report and for detailing the issues that its customers have faced in dealing with the operational changes that icare has implemented following the 2015 legislative reforms to workers compensation.

icare acknowledges the challenges and regrets the negative impacts that some of its customers have experienced, particularly as it executed the core phase of its transformation from July 2017 to February 2019. Since then, actions taken to improve premium and claims processes have resulted in a better performance that icare is committed to further improving on.

icare accepts 11 of the 13 recommendations - 1,2,3,5,6,7,8,9,10,11 and 13 **(TAB A).** Of the 11 recommendations accepted, 5 relate to icare, 2 relate jointly to icare and SIRA and 4 relate to SIRA. While icare is supportive of Recommendation 4, it notes that it relates to GP training across the entire NSW workers compensation system, of which icare is only one provider, albeit the largest. icare therefore considers that this recommendation should be implemented and administered by SIRA. Recommendation 12 regarding SIRA's powers is a matter for the NSW Government.

While accepting most of the IR's recommendations, icare does not consider that the Report presents a true reflection of the NI's overall performance as articulated below:

- Core facts and context are missing from the Report, as further detailed at **TAB B** (NI Financial Performance), **TAB C** (Expenses), **TAB D** (Claims) and **TAB E** (Premium and Policy).
- Inferences that the decline in the scheme funding since 2015 is attributable to icare's management of the workers compensation scheme are unsubstantiated and incorrect. The main reasons for the decline in the funding ratio are largely factors external to icare.
- Conclusions reached in the Report focus on a period of significant transition, when icare was making changes to the service, operating and governance models for both premium calculation and collection, and claims management.
- The Report provides extensive coverage of employer feedback on the NI, but largely ignores the voice of critical stakeholders - injured workers. As part of its Net Promoter Score (NPS), icare has received over 60,000 responses to surveys providing feedback on its customers' experience. icare's specialist mobile engagement team has also met face-to-face with over 8,100 employers, brokers and injured workers across NSW to understand their concerns.

While icare understands it is the prerogative of the Review to craft an outcome narrative based on its interpretation of the information supplied, it is disappointing to note the level of assumption and conflation of complex, specific issues to simplistic commentary.

Large Scale Transformation

Workers Compensation in NSW has long been the subject of discourse and various Parliamentary reviews and inquiries. The common theme that emerged prior to the creation of icare, was that the system was fundamentally broken. It was complicated, adversarial and did not meet the expectations of injured workers or employers.

icare subsequently commenced one of the largest transformations of workers compensation ever in NSW to provide fairer outcomes for its customers. From March 2016, the design of the icare service model was informed by 25,000 customer surveys, focus groups and was supported by external experts.

The service model was designed around five key principles informed by international and Australian research and experience, and predicated on supporting customers and enabling Return to Work (RTW):

- Claims are segmented and supported by resources capable of meeting their needs
- Straight-through processing where possible
- Empathetic customer service which empowers customers
- Service partners as an extension of icare
- Focus on Return to Work (RTW) and life

Since transformation began, icare has achieved significant savings on behalf of the NI, including:

- $1.47b premium savings to NSW businesses from icare's Scheme Performance Adjustment discounts and Employer Safety Incentives,
- $0.44b operational savings in aggregate from operating model improvements and reductions in scheme agent remuneration, and
- $0.39b actuarial valuation releases attributed to icare actions on improving claims cost.

icare acknowledges it has not always got it right and has focused on remediating those issues that were identified during the core transformation period. These actions have included:

- Developing system capability to allow new policies to be completed and claims to be lodged by employers and employees online, 24 hours a day, seven days a week, as well as individual customer service from 7 am to 7 pm weekdays,
- Enabling the Authorised Provider (AP) model that provides eligible large employers with a range of options in claims management,
- Ongoing development of the claims triage model based on data and customer feedback,
- Establishing an icare team in Wollongong comprising experienced case managers, to assist transition during the system implementation process.

icare has listened and responded to the feedback provided by its customers and continues to make improvements in sustainable return to work (RTW) outcomes. However, icare recognises there is more to be done to assist injured workers return to suitable and sustainable work, and is focused on a program of continuous improvement in consultation with its customers and delivery partners.

Changes to funding ratio

It is disappointing that the Report links the NI funding ratio to the establishment of icare and the design of the claims model. icare does not support this assertion.

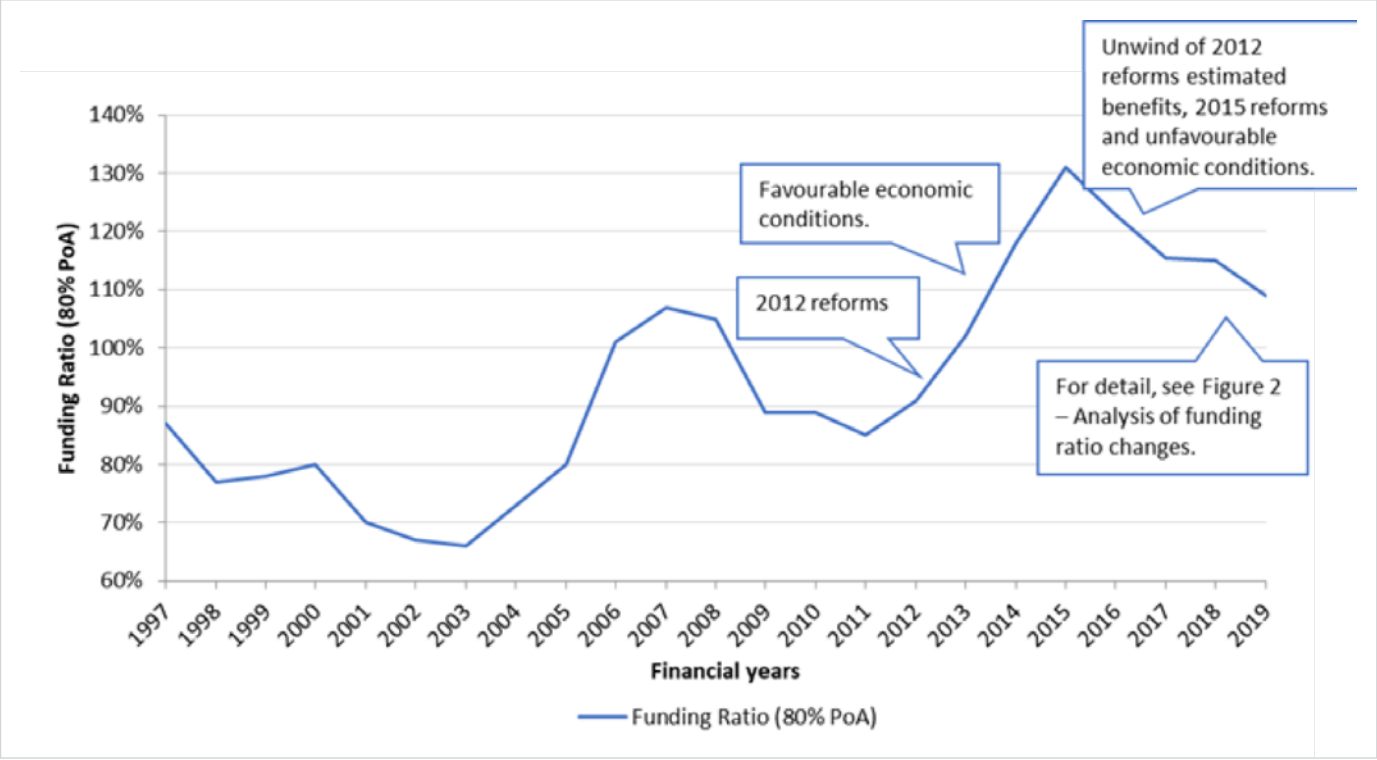
TAB B contains detailed analysis of the NI's financial performance and the respective contributions of the unwinding of the savings from the 2012 reforms, the 2015 legislative changes and external economic factors. **TAB B** also explains recent actions, savings achieved, and improvements to customer service realised by the NI.

The funding ratio for the NI is 109% as at 30 June 2019 (at an 80% probability of sufficiency). This is equivalent to the 112.4% referred to in the Report, which is calculated at the 75% probability of sufficiency. The scheme remains in a fundamentally stronger financial position than it was historically, as can be seen from the graph below. This stronger position has allowed the scheme to return benefits to injured workers and absorb significant external pressures, while maintaining a sound funding ratio.

icare is closely monitoring and prudently managing the funding ratio to ensure that it does not impact the future financial performance of the NI.

Figure 1

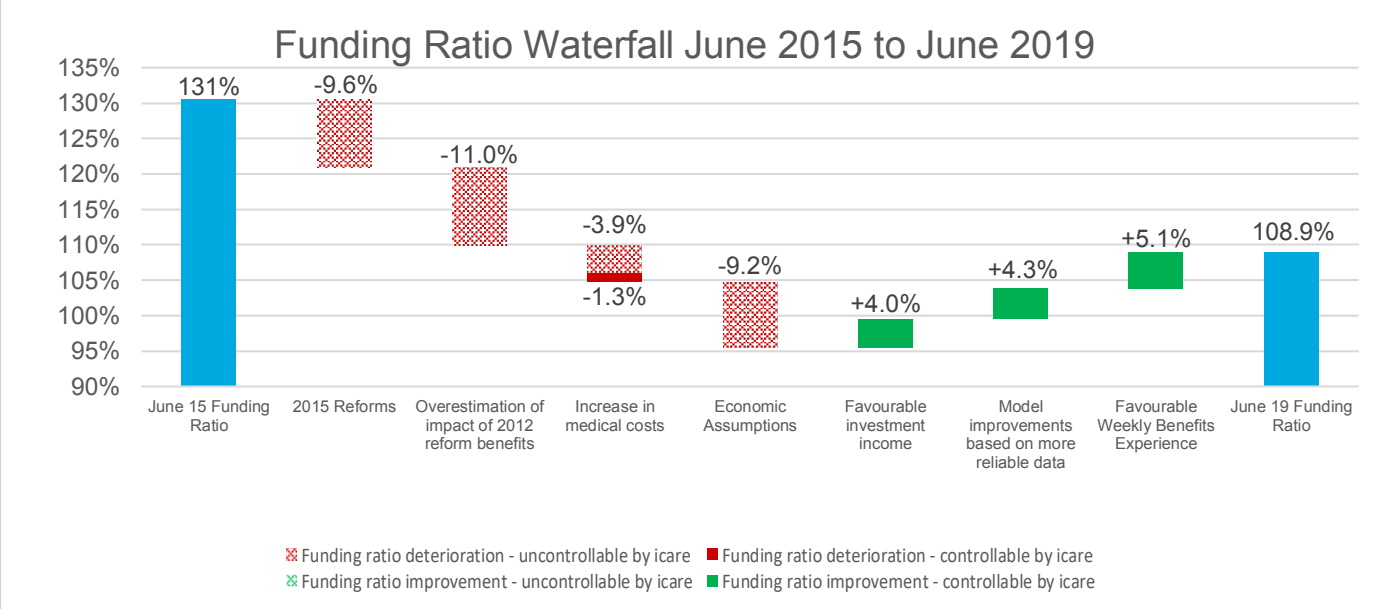
Historical Funding ratio



The main reasons for the changes in the funding ratio of 131% at 30 June 2015 are largely the result of legislative and regulatory reforms, as well as economic conditions and other external factors, as explained at Figure 2 below.

Figure 2

Analysis of funding ratio changes:



The change in the funding ratio has been largely driven by the following factors:

- **The unwinding of the estimated reduction in claims liability following from the 2012 reforms (over 2016/17 and 2017/18, being a total of $1.4b):** This emerged through 2016 to 2017 where emerging claims experience pertaining to Section 39 of the Workers Compensation Act was more than projected at the time of the 2012 reforms. Injured workers were provided with greater benefits than initially envisaged and that the financial benefits of major legislative reforms to the workers compensation scheme made in 2012 had therefore been overestimated.

  This resulted in an increase in the provision of outstanding claims liabilities of $1.4b over 2016/17 and 2017/18.

- **The additional claims liability of the 2015 benefits:** The 2015 reforms provided more benefits to injured workers and resulted in a $1b strengthening over 2015/16 for prior accident year outstanding claims liability.

- **Economic assumption changes:** The significant decrease in interest rates and the lower than projected inflation rate, which cannot be controlled by icare, has resulted in an unfavourable movement of $0.8b in the scheme's liabilities over the last four years.

  Nevertheless, icare has taken a liability-aware approach to its investment hedging strategy, which has effectively minimised the impact of yield curve changes. The NI's assets are invested in a diversified portfolio, which includes a hedging strategy for risk-free yield movements. As a result of icare's prudent active management of its investments, it has continued to perform well despite volatile investment markets.

- **Increase in medical costs:** NI medical costs have increased significantly since 2015/16. Medical costs have been primarily driven by the indexation of the Australian Medical Association (AMA) rates, Private Hospital rates and the Public Hospital code changes by SIRA.

icare will continue to manage the NI scheme in a financially prudent manner and is confident that it has all the appropriate mechanisms in place to continue to secure the financial sustainability of the scheme.

Return to Work (RTW)

icare agrees that there has been a decline in RTW rates. icare acknowledges that its operational challenges in 2018 have contributed to this and had an adverse impact on RTW rates.

However, there are several environmental factors that can contribute to a deterioration in RTW. Some of these factors include:

- Changes in employment conditions such as gig economy, flexible working environments and a shift to a more contingent workforce, which increases challenges in finding suitable employment.
- Changes in economic conditions and its impact on availability of suitable duties, hiring practices and particularly in some industries such as construction, which has higher claim frequency and longer claim duration that adversely affect RTW, and
- Behavioural changes by participants in the ecosystem as it adjusts to changes.

This is also evidenced in SIRA's RTW publication on all NSW insurers, which is available on its website.

icare has taken definitive action to respond to changes in return to work rates through performance improvement initiatives, scheme wide training and targeted interventions for specific claims cohorts. These efforts are beginning to show results with icare's current RTW rate sitting at 81% at 26 weeks as of September 2019 (up from 79% in June 2019). icare is committed to continuing to improve these outcomes for its customers.

Recommendations from the Review

icare supports 11 of the 13 recommendations made by the Review. icare is supportive of Recommendation 4 in principle and does not support Recommendation 12 for the following reasons:

Recommendation 4 (Priority should be given to a training program for GPs by icare):

icare agrees in principle and is supportive of a training program for GPs. However, notes that while the NI is the largest provider within the NSW workers compensation system (issuing 74% of total premiums and managing 65% of total active claims), it is not the only one. For this reason, icare considers that this activity, across the whole workers compensation system, properly sits within SIRA's remit rather than icare's.

In addition, icare already has an existing GP engagement and education program in place via our Medical Office and has been proactive in providing GPs with informal education, support and advice as part of our health engagement strategy. In 2019 alone, icare has:

- Delivered presentations to Primary Health Networks,
- Conducted over 50 face-to-face training sessions (noting our 'reach' is limited only to our 'known' GPs),
- Sponsored and presented at GP conferences,
- Created a dedicated GP webpage, which provides information for the GP to access in their own time,
- Implemented an education resource into 80% of the Primary Health Networks through the HealthPathways system, and
- Leveraged workers compensation training already being delivered within the industry, to provide more detailed, practical advice.

Recommendation 12 (The legislative powers available to SIRA should be reviewed and strengthened to enable proper oversight of the NI):

As it is a matter for the legislature, icare does not consider it appropriate to take a position on this recommendation. However, icare observes that SIRA already has extensive powers in relation to the NI and other insurers. The NI also self-reports various issues as they arise and voluntarily submits additional information to SIRA over and above the regular schedule of meetings and reviews undertaken.

The NI is taken to be the holder of an unconditional licence because, unlike self and specialised insurers, icare occupies a statutory role as insurer of last resort in the NSW workers compensation system. It cannot reject proposals for workers compensation insurance, administers schemes for injured workers whose employer was uninsured, and has extensive public accountability in relation to the management of its income and liabilities, including being subject to the scrutiny of the NSW Auditor General and the NSW Parliament.

Conclusion

icare looks forward to engaging with SIRA in addressing the Report's recommendations and is confident it has the right strategies in place to meet the challenges before it. This level of engagement is critical to ensuring that SIRA and icare fulfil their respective roles in delivering a fair and sustainable workers compensation scheme for the people of NSW.

icare accepts that customer outcomes must continue to improve and acknowledges that it has not always communicated the challenges and solutions well with its customers. icare is committed, in conjunction with its delivery partners, to continuing to work towards substantially improving services for its customers.

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TAB A: Accepted Recommendations

icare support the following recommendations from the Review.

Recommendation 1

SIRA should review definitions where it requires reporting of data in consultation with all stakeholders.

Recommendation 2

Regular meetings between Board chairs, CE and CEO of SIRA and icare should be continued on an open and constructive basis to promote understanding between, and positive relations with the two organisations in meeting their respective responsibilities.

Recommendation 3

SIRA continue its review of governance and capabilities within the emerging contemporary approach to regulation.

Recommendation 5

SIRA should continue it monitoring focus on capital adequacy in liaison with Treasury officials.

Recommendation 6

icare should provide SIRA sufficient regular information to assure the regulator that premiums are calculated in compliance with the legislative requirements.

Recommendation 7

Internal Audit planning and risk mitigation actions should be provided by icare to SIRA on a regular basis.

Recommendation 8

Regular meetings between senior executives should be utilised to agree on and monitor mitigation plans so that formal penalties can be understood as last resort measures in accord with the Premier's memorandum on interagency disputes.

Recommendation 9

icare should ensure its agreements with agents and service providers give adequate weighting to the primary goal of RTW.

Recommendation 10

icare should review its internal governance of the claims management model to ensure adequacy of intended outcomes. In particular, it should consider allocating files to other agents with expertise to reduce the load on EML and provide time for skills and experience to improve.

Recommendation 11

icare should address the staff turnover at EML as a matter of priority to ensure case management services are improved.

Recommendation 13

SIRA should build on its governance work since the Hayne Royal Commission and take up the challenge to operate as a best in class modern regulator.

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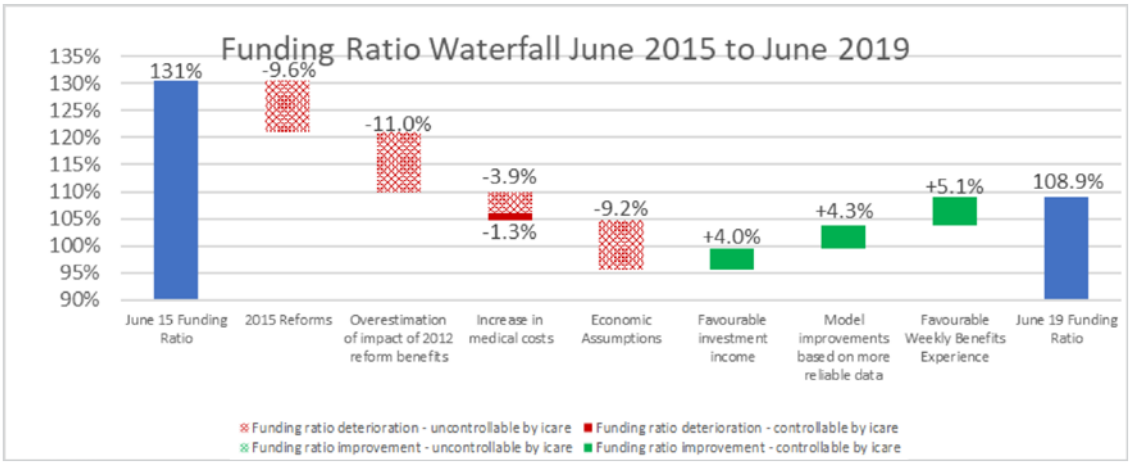
TAB B: Financial Performance

1. Funding Ratio

Issue Raised	icare Response: Clarification of Facts
IR Report, Pages 36-37, Section 5.2	1.1 The Independent Reviewer observed that current funding ratio for the Nominal Insurer (NI) is at 112.4%. The findings included that the funding ratio has been deteriorating since the split of the WorkCover Authority and that corrective measures are required. Without context the statements are unclear and imply that the creation of icare is somehow linked to the deterioration in the funding ratio which is not true. 1.2 icare believes that the claims operating model has not materially impacted the recent funding performance of the NI to date. However, we are closely monitoring and managing the risk to ensure that it does not impact the future funding performance of the NI. 1.3 The funding ratio for the NI is 109% as at 30 June 2019 (at an 80% probability of sufficiency). The main reasons for the change in the funding ratio of 131% at 30 June 2015 are largely external factors. This is equivalent to the 112.4% referenced in paragraph 1.1 above which is calculated at the 75% probability of sufficiency. 1.4 **Analysis of funding ratio changes:** The main drivers of the changes in the claims for prior accident periods (and therefore funding ratio) are shown in Graph 1 below. This graph details the various components of the changes in the funding ratio from June 2015 to June 2019. **Graph 1** 

Issue Raised	icare Response: Clarification of Facts
	1.5 According to this graph, the change in the funding ratio has been driven by the following factors: 1.5.1 **The unwinding of the estimated reduction in claims liability following from the 2012 reforms (over 2016/17 and 2017/18, being a total of $1.4b):** This emerged through 2016 to 2017 where emerging claims experience pertaining to Section 39 of the Workers Compensation Act was more than projected at the time of the 2012 reforms, as subsequently, injured workers were provided with greater benefits than initially envisaged, and that the financial benefits of major legislative reforms to the workers compensation scheme made in 2012 had been overestimated. This resulted in a strengthening of the reserves of $1.4b over 2016/17 and 2017/18 for prior accident year outstanding claims liability. 1.5.2 **The additional claims liability of the 2015 benefits:** The 2015 reforms resulted in a $1b strengthening over 2015/16 for prior accident year outstanding claims liability. 1.5.3 **Economic assumption changes:** The significant decrease in interest rates and the lower than projected inflation rate have resulted in an unfavourable movement of $0.8b in the scheme's liabilities over the last four years Nevertheless, icare has taken a liability-aware approach to its investment hedging strategy, which has effectively minimised the impact of yield curve changes. The NI's assets are invested in a diversified portfolio, which includes a hedging strategy for risk-free yield movements. As a result of icare's prudent active management of its investments, it has continued to perform well despite volatile investment markets. 1.5.4 **Increase in medical costs:** NI medical costs have increased significantly since 2015/16. Medical costs which are not directly controllable by icare include the indexation of the Australian Medical Association (AMA) rates and Private Hospital rates and the Public Hospital code changes by SIRA. 1.6 For other items (such as weekly benefits, rehabilitation payments, work injury damages), icare's actions have resulted in favourable claims movements (that is, lower claims costs), which represent releases in the claims reserves. Although weekly benefits and return to work experience have deteriorated for shorter-term claims, this has been more than offset by icare's effective management of longer-term claims, which has resulted in lower claims costs. icare, with the assistance of Finity, the NI scheme actuary, has reviewed the claims movement for prior years in the financial statements for each of the four years since icare's inception. Table 1 provides a breakdown of prior period claims movements in the financial statements.

Issue Raised	icare Response: Clarification of Facts

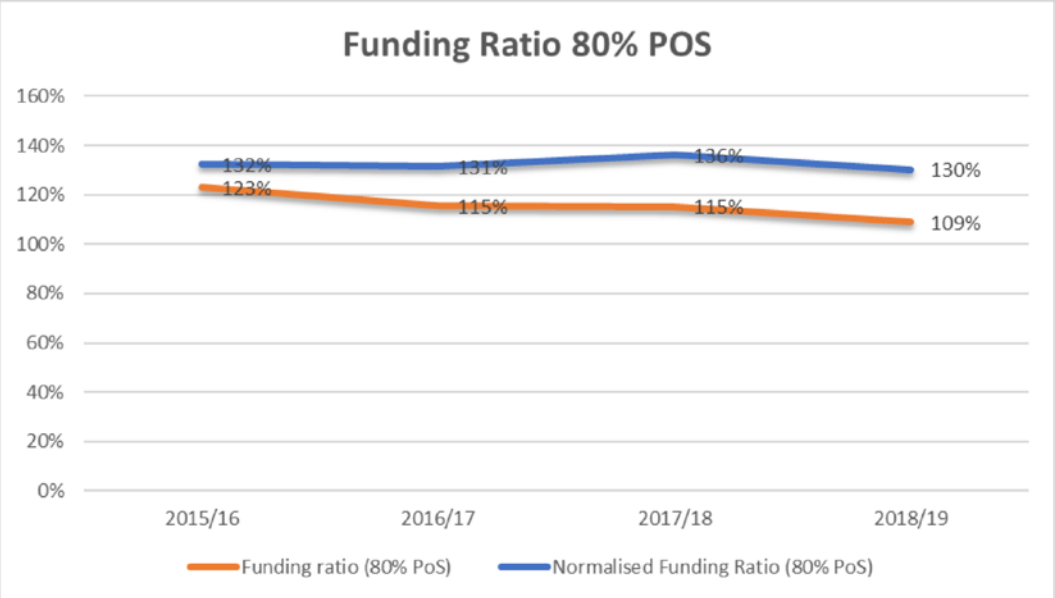
Table 1

Breakdown of prior period claims movement from financial statements (negative = unfavourable (i.e. higher claims costs) and positive = favourable (i.e. lower claims costs))				
$million	**2015/16**	**2016/17**	**2017/18**	**2018/19**
Legislative reforms (overestimation of 2012 benefits and additional 2015 benefits)	**(1,038)**	**(1,039)**	**(460)**	63
Economic assumption changes (including unwind, margin release on pmts)	**(278)**	122	116	**(800)**
Increase in medical costs (75% as estimate of costs not directly -controllable by icare)	-	219	**(213)**	**(446)**
Factors controllable by icare	670	349	1,087	436
Total prior period claims movement	**(646)**	**(349)**	**530**	**(746)**

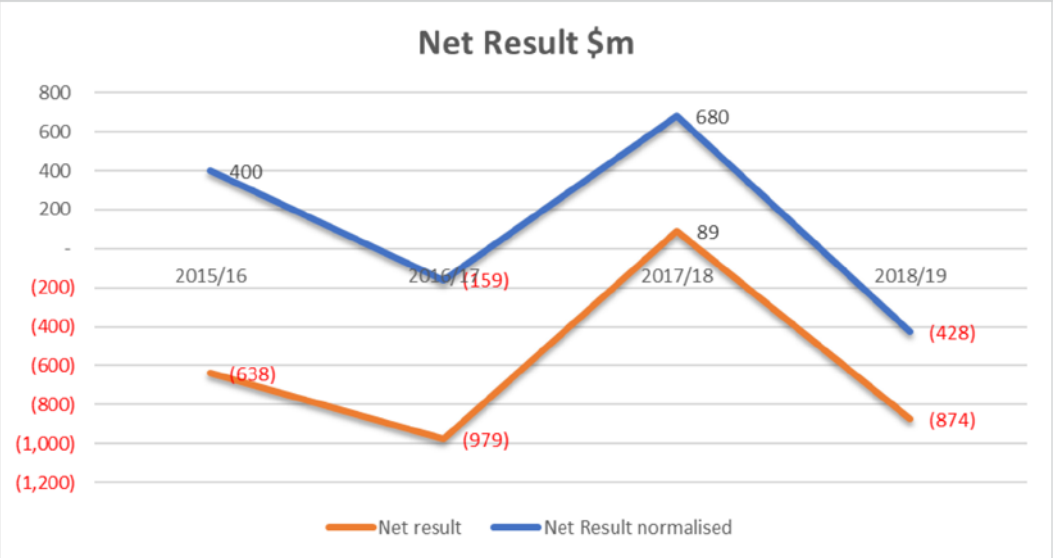
1.7 It is clear that two of the largest drivers of the change in the NI's funding ratio, being the overestimation of the impact of the 2012 reforms (9.6% of the unfavourable impact) and the 2015 benefits reform (11% of the unfavourable impact), are one-off and unlikely to be repeated. Graphs 2 and 3 show that if the results are normalised, removing the items mentioned above which are not controlled by icare, the funding ratio would have been within target zone of 110% to 130% at 80% probability of sufficiency.

Issue Raised	icare Response: Clarification of Facts

Graph 2



Graph 3



1.8 **icare action**

1.8.1 icare has finalised its half year review of its budget, which is closely monitored by the icare Board and reported to the NSW Treasury. It is projected that the funding ratio will be >110% by FY22/FY23. This is due to the active review of pricing by icare including the wind-back of the employer safety incentive, review of investment strategy, operating expense efficiencies and claims initiatives targeted at both front end and tail Return to Work (RTW).

2. Reliance on Investment Income

Issue Raised	icare Response: Clarification of Facts
5.3 IR Report, Pages 38-39, Section Loss Ratio	2.1 The Independent Reviewer observed that icare continues to rely heavily on investment income to bridge the gap between the negative underwriting result and the final profitability figure. The Reviewer also commented that it is inherently risky to rely on investment income. 2.2 icare leverages its investment income to offer lower premiums for the employers of NSW. This is part of the NI's pricing approach and is usual practice in long tail insurance classes where investment income can be significant due to the horizon of investment.

3. Additional Details: Savings Achieved by the NI

Issue Raised	icare Response: Clarification of Facts
	3.1 icare on behalf of the NI has achieved significant savings for our customers and the Scheme since 2015, including: • **$1.47b premium savings to NSW businesses** from icare's Scheme Performance Adjustment discounts and Employer Safety Incentives. • **$0.44b operational savings** in aggregate from operating model improvements and reductions in scheme agent remuneration. • **$0.39b actuarial valuation releases** attributed to icare actions on improving claims cost.

4. Additional Details: Customer improvement achieved by the NI

Issue Raised	icare Response: Clarification of Facts
	4.1 In addition to customer savings, we have also improved customer experience through numerous changes that have been delivered over the past 4 years, which include: 4.2 **Providing customers with multiple ways to engage with the NI** often in their own language through the investment of improved translation services and the delivery of information in 20 languages (see icare executive summary to SIRA for review of NI). 4.3 **Improvement of services offered to injured workers.** The improvement in the NPS score since 2016, demonstrates improved process and communication with injured workers. This score has remained positive through the very challenging transition period.

Issue Raised	icare Response: Clarification of Facts
	4.4 icare has made the following changes for the benefits of the workers: 4.4.1 complaints and dispute resolutions teams implemented, with 44% of decisions resulting in change in the worker's favour (or withdrawal), suggesting independent, open consideration of circumstances; 4.4.2 straight through processing for claims needing minimal or no time off work (65% of claims), leading to a significant reduction in wait times; 4.4.3 service level agreements requiring workers be contacted within 72 hours of injury lodgement as part of the new claims service model, where previously workers had reported unclear timing of when they would be contacted. 4.5 icare has made the following changes for the benefits of employers: 4.5.1 receive guidance as to how employers are performing relative to industry peers, with information provided on employer performance in comparison to the rest of the industry, employers of the same size and the wider workforce; 4.5.2 receive more online services, with 71% of new business now completed online via the icare portal; 4.5.3 receive extended contact hours for support, with approximately 13% of calls received currently, being at a time that would previously have been outside of hours, and a customer satisfaction rating of 4.8 out of 5 from over 780,000 calls.

5. References

- TAB A: Accepted Recommendations
- TAB B: Financial Performance
- TAB C: Expenses
- TAB D: Claims
- TAB E: Premiums and Policy
- NI Report – *Report of the Nominal Insurer NSW Workers Compensation Scheme Independent Reviewer*, Janet Dore (November 2019)
- EY Claims Review – *Compliance and Performance Review of the Nominal Insurer, Part 1: Claims management*, Ernst & Young (15 November 2019)
- EY Premiums and Policy Review - *Compliance and Performance Review of the Nominal Insurer, Part 2: Premiums and policy review*, Ernst & Young (15 November 2019)
- EY Expenses Review - *Compliance and Performance Review of the Nominal Insurer, Part 3: Expenses Review*, Ernst & Young (15 November 2019)

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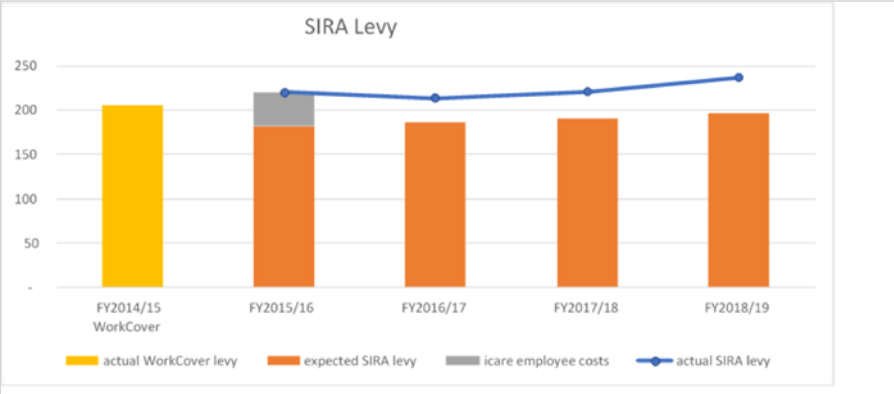
TAB C: Expenses

1. Expense Trends/Premium and Expenses Ratios

Issue Raised	icare Response: Clarification of Facts
EY Expenses Review, Page 2, Table 1; Page 1, Figure 1, **Also, IR Report, Pages 54-57, Section 5.10** **Key Findings: Expense trends** • Total expenses for FY18/19: $1,041m includes: ◦ levies of $302m and transformation expenses of $159m ◦ Increased at average rate of 5.5% p.a. since 2014/15 ◦ Excluding transformation and levies, rate of increase 2.8% p.a. ◦ Since 2014/15 the net earned premium of the NI (exc. Levies) has grown at a rate of approximately 4.8% p.a. **EY Expenses Review, Pages 7-9, Section 4** **Summary of Premium and Expense Ratios** • Total expense ratio increased from approximately 29% to 33% • The spike in 2017/18 was due to clean up of bad debts. • The operational expense ratio has trended down from 26% to 24%.	**Overall expense rate trend is reducing:** 1.1 The expense rate overall for the Nominal Insurer (NI) has been reducing. There was a peak in expenses in 2017/18 – however, the expense trajectory has been improving since then and is expected to continue to improve going forward. The expense peak in 2017/18 was driven predominantly by two factors: 1.1.1 transformation expenses (being $129.8m) for the build of icare's Nominal Insurer Single Platform (NISP) platform. 1.1.2 doubtful debts (being $74.2m) increase due to a review, a third (33%) of which related to policies that pre-dated icare. **Normalisation of expense rate** 1.2 It should be noted that there is a recurring transformation expense budget which will reduce in 2019/20 (to $57.9m) and 2020/21 (to $34.9m), before stabilising to approximately $23.2m from 2021/22 onwards – as per table below provided to EY: **Table 1** 1.3 **Levies** - there are three levies paid by icare: a. **The Mine Safety Levy**, which has remained low (between $7-10m) for the period and is expected to remain constant. b. **The Dust Diseases Levy**, which has been reduced (from $91.3m in 2016/17 to $50.8m in 2017/18 and $57.9m in 2018/19) over the period due to icare's decision, as part of its management of the Dust Diseases Authority Fund, to supplement the levy with its investment income. c. **The SIRA levy**, which has increased 15% since the creation of icare, from $205m in 2014/15 to $236.2m in 2018/19. This levy saw a large increase between 2014/15 to 2015/16 and continues to increase.

	FY2015/16 actual	FY2016/17 actual	FY2017/18 actual	FY2018/19 actual	FY2019/20 budget	FY2020/21 budget	FY2021/22 budget	FY2022/23 budget
One-Off	-	49	130	159	58	12		
Recurring (continuous improvement)						23	23	23
Total Operating expenditure	**-**	**49**	**130**	**159**	**58**	**35**	**23**	**23**
Total Capital expenditure	9	35	49	62				

Issue Raised	icare Response: Clarification of Facts
• Transformation expenses have contributed 6% and 7% to the total expense ratio in 2017/18 and 2018/19, respectively. • The net earned premium has increased on average by 4.8% p.a. due to wage growth, portfolio growth and premium rate increases. • Expense categories: Levies (SIRA, mine safety, Dust Disease), operational expenses for contractors, bad debts, fund management expenses, transformation costs (contracting staff and ICT), and depreciation. Highlights are: • A steady increase in operational expenses since 2015 amounting to an annualised increase of 3.3% p.a. • Levies relatively constant • A spike in bad debt expenses in 2017/18 • Fund manager remuneration relatively constant • Increase in transformation costs over last 3 years. The icare CFO informed us that the NISP costs are now complete and the budgeted transformation expenses for 2019/20 will reduce to $58m and $23m thereafter (for continual improvement initiatives).	The levy currently covers the activities and expenses of SIRA (regulator), SafeWork NSW (WHS inspectorate), the Workers Compensation Independent Review Office (WIRO) and the Workers Compensation Commission (WCC). The graph below shows the actual and expected SIRA levy. The 2014/15 WorkCover levy is from the NI annual accounts and includes icare employee costs. In 2015/16, with the creation of icare, the budget breakdown of the WorkCover levy showed that $38m related to icare employee costs. Accordingly, it was expected that the levy payable to SIRA would be lower than the 2014/15 WorkCover levy, which has not been the case. Instead the levy has continued to increase. Based on icare's calculations, which have removed the insurance operations costs of WorkCover and assumed increases based on inflation of 2.5%, the SIRA levy in 2018/19 should have only increased to $196m, as opposed to its actual levy of $236.2m. **Figure 1**  **Additional matters not considered by EY in analysing the expense trend include:** 1.4 **Increase in expenses is in line with inflation:** The EY Expenses Review notes that expenses excluding transformation and levies have increased at an average rate of 2.8% p.a. since 2014/15. Over this same period, the ordinary hourly rates of pay for Australian workers (Wage Price Index) has increased at an average rate of 2.1% p.a. and the number of written policies has increased at an average rate of 3.3% p.a. Expenses have increased at an average rate that is in fact less than the combined economic inflation and growth in the volume of policies.

Issue Raised	icare Response: Clarification of Facts
	1.5 **Reduction in Claims Handling Expense Reserves has not been considered:** In its analysis of expense trends, EY has not considered the reduction in future claims handling expenses, projected by icare's scheme actuaries, Finity, in the NI actuarial valuations. The "claims costs" line item in the financial statements includes a reserve for future claims handling expenses on existing claims. Since 2015, the actuarial valuations have reduced the claims handing expense assumptions and therefore the estimated future claims handling expenses, based on the actual and budgeted expenses of icare for the NI. There has been a total of $120m in releases to the claims handling reserves in actuarial valuations since 2015.

2. Operating Expenses

Issue Raised	icare Response: Clarification of Facts
EY Expenses Review, Page 2, Table 2 and Figure 2 **Also, IR Report, Pages 54-57, Section 5.10** **Key Findings: Operating expenses** • Operating costs made up of: scheme agent rem, icare salary costs, ICT/ software, miscellaneous "other" costs • Increased from $452m (2014/15) to $533m (2018/19) an annualised rate of increase of 3.3% • Reduction in scheme agent remuneration from $410 to $251m but this is largely offset by salary and ICT costs • NISP will be ongoing recurrent cost (vs previous scheme where IT platform of all agents were relied on)	icare's response to EY's commentary on operating expenses is largely covered above. Key points in response to EY's findings in relation to operating expenses are as follows. **2. EY's observation that reduction in scheme agent remuneration is "largely offset" by salary and ICT costs** 2.1 Additional context should be provided around EY's statement that the reduction in scheme agent remuneration of $160m is "largely offset" by icare's salary and ICT costs of $140m. 2.2 **Increased ICT Costs:** One of the reasons for the reduction in scheme agent remuneration is the removal of technology costs for the use of agents' insurance platforms. The creation of NISP aimed to centralise the claims data into a single technology insurance platform reducing the fees payable to the agents. Accordingly, there has been an increase in ICT costs, now directly incurred by icare to run the NISP platform (as opposed to the previous arrangement, in which the NI relied on the individual systems of each scheme agent). The ongoing run costs incurred for NISP by icare are approximately $32m p.a. (FY2017/18), which is significantly lower than the savings in scheme agent remuneration relating to technology costs. 2.3 **Increased salary costs:** EY's observation of the increase from 2014/15 to 2018/19 needs further clarification. As mentioned in our commentary above about levies, the reference point of FY2014/15 for the operating expenses comparison is not consistent with the comparison years under icare. This is because employee costs are not included in the FY2014/15 operating expenses but are included in the operating expenses calculated for the following years under icare. See the graph and accompanying commentary above on pp 2-3.

Issue Raised	icare Response: Clarification of Facts
EY Expenses Review, Page 10-11, Section 5 **Operating expenses** • Significant reduction in scheme agent remuneration (from $410m in 2014/15 to $250m in 2018/19) – represents half of the total operational expenses. • Reduction in scheme agent remuneration has been offset by salary and ICT costs of icare – direct wages of staff employed by icare and work solely for the NI and indirect wages of other employees employed by icare and a proportion of their wages are allocated to the NI. • ICT and software costs relate to the costs of the software solutions and managed services that icare have put in place that form the NISP. 2018/19 these were $35m. • Actuarial and audit fees are relatively small and have fluctuated between $11m and $21m. • Other costs include Service NSW fees, depreciation of NISP, grants and costs associated with managing icare's contingent workforce	

3. References

- TAB A: Accepted Recommendations
- TAB B: Financial Performance
- TAB C: Expenses
- TAB D: Claims
- TAB E: Premium and Policy
- NI Report – *Report of the Nominal Insurer NSW Workers Compensation Scheme Independent Reviewer*, Janet Dore (November 2019)
- EY Claims Review – *Compliance and Performance Review of the Nominal Insurer, Part 1: Claims management*, Ernst & Young (15 November 2019)
- EY Premiums and Policy Review - *Compliance and Performance Review of the Nominal Insurer, Part 2: Premiums and policy review*, Ernst & Young (15 November 2019)
- EY Expenses Review - *Compliance and Performance Review of the Nominal Insurer, Part 3: Expenses Review*, Ernst & Young (15 November 2019)

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TAB D: Claims

1. Design of the Service Model and Operating Model

The design of the icare claims service model was informed from March 2016 by 25,000 customer surveys, focus groups and was supported by external experts.

The claims service model was designed around key principles informed by Australian and international research, and predicated on supporting customers and enabling Return to Work (RTW):

- Claims are segmented and supported by resources capable of meeting their needs
- Straight-through processing where possible
- Empathetic customer service which empowers customers
- Service partners as an extension of icare
- Focus on RTW and life

1.1 Single Claims Manager

The icare strategy has been to deliver a consistent and responsive claims management service for all our customers, employers and injured workers. This service model is underpinned by a single IT system, which went live in February 2019. In order to create a consistent experience, we chose to work initially with one organisation to design, build and operationalise the model. icare has iterated the model as feedback was received. A recent example is the introduction of the Authorised Provider (AP) model, which responds to large employers calls for greater choice. icare is also exploring an industry model solution for small employers in response to customer feedback for tailored RTW solutions.

Issue raised	icare response: clarification of facts and actions
59 submissions noted the shift to a single agent and the loss of choice and competition within the scheme. This was viewed by many to have caused a deterioration in claims management as well as depleted the broader pool of experience within claims managers in the NSW workers compensation system. **IR Report Page 24, Section 4.6.5** *The strategy to reduce the number of agents appears contrary to NSW government objectives of competition and innovation…* **IR Report Page 77 Section 9.5.1**	• A key component of the 2015 legislative change was to improve structural management. The development of a centralised operating model was in response to the environment in which icare was operating at the time, and the need to develop a consistent approach to claims management • The report implies that icare did not consider the risks of the solution chosen. icare's advice from external experts on the design of the operating model considered the benefits of achieving standardisation through working with a single agent as well as the risks associated with scaling **icare action in response** • Launch of the Authorised Provider model • Development of an industry model for small employers • Implementation of a program of work focussing on operational improvements, service levels and coaching support for frontline staff • System Enhancements to improve compliance and customer service through enhanced data quality, documentation, increase automation and expand self-service. Deployment dates have been determined for the next 12 months • Continuous improvement programs informed by our NPS surveys

1.2 Triage and Segmentation

Segmenting claims has been a practice in NSW since around 2012, when many scheme agents developed operating models that included a "fast track" claims team for low risk claims. Differentiation of service based on risk is similarly seen in other personal injury schemes such as the ACC in NZ, Queensland WorkCover and is currently being implemented by WSIB Ontario, Canada.

icare acknowledges that the implementation of segmentation without effective case management practices had an impact on RTW and customer experience for some customers and has adjusted the model and icare's level of oversight in response.

The IR Report's conclusions about triage are drawn from EY's file review. At a portfolio level icare's data does not support EY's conclusions about the extent of inaccuracy of the triage model. icare attributes the findings to extrapolation from unrepresentative sampling and difficulties in operationalising re-segmentation when recommended by the triage specialists.

Issue raised	icare response: clarification of facts and actions
(NISP [1]) *... is programmed to triage claims, based on algorithm designed by icare, at their lodgement through portal. This is based on an 80/20 type rationale, that is, the majority of claims are not complex so that recovery paths are therefore easily selected.* **IR Report Page 65 Section 7.2.1** *... The new system is highly dependent on an algorithm which determines claim severity and therefore treatment. Such an automated process will miss the subtleties of individual circumstances for which case management skills are needed...* **IR Report Page 65 Section 7.2.2** *The RTW outcomes of the 2018 claims cohort were impacted by the inaccuracies of the triage system combined with the design of the Empower and Guide segments. These segments do not assign injured workers a dedicated case manager and this has resulted in passive case management and a lack of timely intervention to ensure these claims received the most effective treatment.*	**Definition** Triage is a process by which the risk profile of claims is assessed against expected injury duration and biopsychosocial risk factors. It is an ongoing assessment that is most effective 3-7 days after lodgement when initial contact has been made and further information gathered. Triage in the new claims model considers 96 data points and 61 variables such as: • Injury type and duration • The employer's view of the claim • Industry • Availability of suitable duties • Worker age and health profile Based on customer feedback icare has recently revised the model to ensure all claims with forecast time lost beyond 2 weeks are assigned a dedicated case manager. **Process** The triage process for all new claims consists of both the: • Triage engine (algorithm), and • A dedicated triage team of qualified allied health professionals When relevant information is updated in the centralised claims system, the triage engine considers the data and (if appropriate) creates a task for a Triage Specialist or Injury Management Specialist to review the claim. In addition, the Claims Advisor or Case Management Specialist initiates re-triage manually. Re-segmentation can only result in the escalation of a claim to a 'higher' segment (i.e. no claim will move from Support or Specialised to Guide).

[1]Nominal Insurer Single Platform

Issue raised	icare response: clarification of facts and actions
IR Report Page 66 Section 7.2.4 a) *Evidence from the claims file review shows that the current triage process is ineffective in allocating claims to the correct level of support.* **EY Claims Review Page 19 Section 3.3.1 Triage** *…triage appears to be carried out prior to information being obtained and does not seem to be reviewed following further information being obtained.* **IR Report Page 23 Automatic triage Section 4.6.3** *With claims in Empower and Guide there is no time loss and these claims sit in Empower and Guide with little liaison with treatment providers…* **IR Report Page 23 Automatic triage Section 4.6.3 Case Study 2 (Submission # 43)**	During 2018 when there were difficulties with scaling the operation, re-segmentation activity was slower than it should have been. To respond icare has put in place a number of training and monitoring strategies and is leveraging exception reporting in the new system. The outcome of the triage process is driven by the known information on the claim. The more information provided at lodgement, or the longer the claim is open, the more accurate triage will be. **Triage accuracy** In February 2018, the triage model was accurately assigning the segment correctly for approximately 77% of all claims without intervention. Currently 82% of claims are initially segmented correctly without intervention using information at claim lodgement. The remaining 18% of these are manually reviewed by the Triage Specialist Team for a triage decision, including contacting stakeholders if required. Segment change often happens in the first 3-4 weeks of a claim as more information becomes available (such as further medical information / recovery has plateaued etc). As at 30 September 2019, for all claims lodged since 4 February 2019 (and now closed) 90% of claims had the same segment at lodgement and final segment, 92% at day 7 and 97% at day 30. The median time to re-segment a claim has reduced to less than one week. **Segment Activity** A team-based approach to case management is used to manage the less complex claims that are triaged to the Guide segment. The icare model requires a mandatory contact with employer, injured worker and nominated treating doctor within 3 days, exceeding the legislative requirement. Current success rate is 94.4% contacts achieved on time and includes follow up tasks for action. NPS is currently highest for the Guide segment (22 October 2019) with the employer NPS result achieving +2 which is 17 points over the segments with a dedicated case manager. **Improvements** Following consultation with Taylor Fry on the design of the triage model icare has continued to iterate it based on feedback and the data received. Changes were made in August 2018 to reduce the predicted time lost from 6 weeks to 4 weeks for the Guide segment, and then to 2 weeks. icare made changes to the underlying algorithm from a machine learning informed linear model to a machine learning model (random forest) that allocates claims based on over 200 decision trees. Both models were peer reviewed.

1.3 Medical Support

The Medical Support Panel (MSP) was an icare action to respond to the unnecessary engagement of Independent Medical Examiners (IME) for treatment decisions which could have earlier support, avoiding unnecessary delays and increased investigation costs.

Issue raised	icare response: clarification of facts and actions
Medical panel: submissions identified issues with lack of choice and Independent Medical Examiners but it is an output of poor execution rather than an inherent problem with the new claims model **IR Report Page 76 Section 9.3.1** *31 submissions specifically mentioned experiencing delays in obtaining approval and delaying required or agreed treatment.* **IR Report Page 29 Section 4.10.1** *The decision making pathway for the use of the MSP and the use of IMEs lacks clarity …* *From the claim file review, there was limited use of IME being used even though there were a number of cases where this course of action was warranted.* **EY Claims Review Page 23 The Medical Panel and use of IMEs Paragraph 1** *… to request a review of a claim file by the MSP appears to be a cumbersome process.*	**Utilisation of IME and introduction of MSP** Multiple publicly available reports were critical of 'medical assessment' processes impacting injured workers. These included: • The Victorian Ombudsman's Investigation into the management of complex workers compensation claims and WorkSafe oversight report (September 2016) and follow up report (November 2019) which called out Agents and Employers selectively choosing IME's in order to decline claims • NSW Standing Committee on Law and Justice (November 2016) • Hayne Royal Commission (December 2017) Additionally, icare is cognisant of its obligation under the model litigant policy, which includes the obligation to avoid unnecessary disputes or deal with claims promptly and not causing unnecessary delay in the handling of claims and litigation. icare's first response to this feedback was to introduce a choice of three IMEs for all injured workers. This has been in operation since June 2015. Qualitative assessment of over six hundred IME reports from 2013-2015 confirmed that: • In 62% of cases, the IME report either supported the treatment proposed, or did not alter the case management approach • 17% of IME reports sampled resulted in a clear change in the claim outcome (e.g. through declinature of treatment) • In all cases, referral to an IME delayed decision making by an average of 6 weeks

Issue raised	icare response: clarification of facts and actions
EY Claims Review Page 23 The Medical Service Panel and use of IMEs Paragraph 2 *… (MSP) is a recent innovation and is designed to assist in determining the need for proposed treatment and the need for an independent medical examination …. Only a handful of files reviewed referred matter to the MSP, and so it is difficult to draw conclusions about its effectiveness … the use of IMEs has declined considerably in the previous 12 months …. consistent with icare's philosophy of being less adversarial … the number of IMEs per quarter has averaged approximately 10,000. Since the introduction of the new claims operating model … reduced to approximately 7,000 per quarter* **EY Claims Review Page 28 Paragraph 1**	Since the implementation of the MSP, the participating doctors have: • Improved timelines of decision making and reduced treatment delays for injured workers, promoting earlier recovery • Reviewed close to 8,000 claims. For 66% of these cases, the MSP was able to provide a recommendation back to the case manager on appropriate treatment without referral to an IME • Conducted doctor to doctor conversations enabling modifications to a treatment approach as an alternative to recommending a treatment be declined • In the remaining 34% of claims the MSP doctor provided a concise medical summary of the claim to assist the case manager with briefing the IME before a physical assessment • The MSP has averaged less than 5 days from receipt of information in order to provide their feedback The combined cost to the Nominal Insurer (NI) of the MSP and IME's is now $17.7m (FY2019) compared to IME's in FY2017 of $27m. icare has recently conducted an analysis on the use of the Official Disability Guidelines (ODG) for approvals and number of allied health sessions. This analysis has supported icare's training strategy and focus on increasing the use of ODG for supporting faster and more relevant treatment for customers.

1.4 Governance (Structure and oversight, decision rights, incentives)

Since 2015 icare has worked to increase its governance focus on quality and outcomes. In 2017 the NSW Standing Committee on Law and Justice called out the perverse outcomes resulting from scheme agent remuneration incentives that focussed on process measures. In response, icare iteratively moved incentive measures from process to quality and outcomes in order to improve customer experience and RTW.

In addition, the new EML contract and single claims system provided icare with opportunities to increase oversight of performance. EML and the Authorised Providers are/will be required to provide daily and monthly operational reporting on financial, customer, operational and RTW metrics. This reporting allowed early identification of issues that previously would only have been evident when icare received Common Data Repository (CDR) data two months later. When icare implemented the new claims system in February 2019 it is now possible to actively monitor operational and compliance-based activity on the system and icare has developed several tools to do this proactively.

In addition, icare conducts its own Quality Assurance (QA) testing to ensure that the QA results reported by these organisations calibrate to icare's standards. Since January 2018 icare's QA team has reviewed 5,195 claims.

Prior to 2017 the scheme agent contracts focussed on remuneration for process measures. This was modified to provide a greater focus on outcome measures. Additional incentives for RTW, including "at risk" remuneration for underperformance or failing to meet minimum compliance standards, have been designed in the template contracts developed for Authorised Providers.

The evolution of icare's oversight has moved from an audit (hindsight) focus and now includes:

- Quality Assurance
- Decision rights
- Daily/weekly/monthly operational reporting
- Exception reporting
- Performance dashboards
- Conduct risk reviews
- Internal control and Remuneration audits

1.5 Decision Rights

Decision rights were implemented for icare to take appropriate accountability for high-risk or high cost decisions that may impact workers or employers across the scheme. This led to icare making for example, 118 (0.001%) of the more than 115,000 initial and subsequent liability decisions in the first 20 months of the new model. icare acknowledges the confusion that the earlier iterations of the decision rights created for customers. The launch of the new claims system in early 2019 meant icare has additional tools to oversee performance and governance. Following the system launch, icare reviewed decision rights and how they are used informed by customer feedback. This review ultimately led to a simplification of the Decision Rights. The current icare Decision Rights are available on the icare website.

Issue raised	icare response: clarification of facts and actions
... Some claims decisions require approval from icare and therefore add to delays in processing. This poses challenges about the nature of the agreement between icare and EML ... It therefore means icare controls and directs the operation of the entity that is engaged to carry out claims management which may inhibit EML from performing to the best of its ability. **IR Report Page 70 Section 7.4.9** *We found no evidence during the claim file review of the documented decision-making framework between EML and icare being adhered to or enforced.* **EY Claims Review Page 21 Section 3.3.3**	**Decision rights usage** The EY Claims Review called out lack of effectiveness regarding the requirement for Occupational Rehabilitation cost requests over $10,000 to be escalated to icare as the evidence that the decision rights are not adhered to or enforced. 1,405 escalations were made to icare between 1/1/2018 and 30/6/2019, of the 1,576 rehabilitation services that exceeded $10,000. This is an 89% compliance rate. Of the 1,405 escalations: • 44% of the requests approved • 13% of requests not approved • 31% partially approved **Other escalations** The use of decision rights is not the only time icare has expected escalation of high-risk decisions. For example, prior to 2017 and in response to recommendations of the NSW Standing Committee on Law and Justice, icare introduced guidance material and oversight of scheme agents in the use of covert surveillance. This guidance material is consistent with the recently issued surveillance standards issued by the State Insurance Regulatory Authority (SIRA) in the Standards of Practice. Expectations of appropriate use of surveillance has been called out in the recently released Victorian Ombudsman Follow up investigation into the management of complex workers compensation claims (2019), which criticised WorkSafe's oversight of the decision making about surveillance by Agents.

Issue raised	icare response: clarification of facts and actions
While the principles behind the decision-making framework may appear sound, it does introduce a frictional cost for EML. It is more difficult for EML to apply principles of sound technical case management. In addition, there does not appear to be any incentive for EML to follow the processes established by icare. **EY Claims Review Page 23 Summary**	icare now reviews all requests from all scheme agents to conduct covert surveillance. In 2018 there were 245 requests submitted for covert surveillance and 158 were approved. Whilst the use of surveillance has declined in recent months, it is still an effective tool in appropriate circumstances and the results indicate improved selection of claims warranting investigation.

2. Implementation

In 2016 icare embarked on scheme wide changes to deliver on the government's intent of the 2015 reforms and to improve the customer experience for employers and workers. A key step was the implementation of the new claims model. The timing of this implementation was driven by scheme agent contract end dates (31 December 2017). At the time of developing the service model icare had commenced discussions about the Authorised Provider pilot and had future plans to develop an industry model.

icare acknowledges that despite the external assistance in detailed design, business readiness and operationalisation, the early RTW results and experience for our customers were not as ithey should have been. Our testing included workforce planning, service and process design, the quality assurance framework and a dress rehearsal for the launch. This work demonstrated that the model could be effective but was not able to fully assess capacity to scale.

2.1 Recruitment and Workforce capability

Once icare selected EML as its core claims agent, EML was required to rapidly scale its workforce, and this was more challenging than expected. After early challenges emerged, EML and icare invested in 29,180 hours of training for EML staff during calendar year 2018 and a further 18,000 hours for all scheme agents on topics such as work capacity, S39 and use of occupational rehabilitation. In addition, icare established an icare team in Wollongong, comprising experienced case managers, to assist transition during the system implementation period.

EML and icare have worked together on a number of initiatives to better support staff and reduce turnover and the subsequent impact on RTW for our customers. This work includes adjusting the decision framework to allow case managers greater accountability to make decisions, more accurate resourcing, improved case manager coaching and enhancing the claims management technology to allow claims staff to spend more time actively managing claims.

To support our customers the icare capability framework includes 71 identified competencies including:

- Soft skills – 21 including influence and negotiate, communicate effectively and optimise business outcomes
- Technical workers compensation – 37 including legislation and regulation, file note writing, evaluating liability and investigating claims – high competence is required of all claims staff
- Injury management – 16 including complex injuries and injury specific topics
- Leadership – 3 for leadership roles
- Provider management – 6 (rehabilitation, legal, medical)

There is currently a challenge across the whole scheme in maintaining the appropriate balance of case practice, customer service and technical skills. icare invested in new training options for the implementation of the 2018 legislation reforms and is currently evaluating their effectiveness. We will continue to seek customer feedback as part of this evaluation.

2.2 Claim Volumes

The conclusions that EY reached about increase claim numbers does not consider employment growth in NSW or the fact that the claims data contains claim notifications that will ultimately drop out. When both are considered, the claim frequency for NI is stable.

Issue raised	icare response: clarification of facts and actions
Appendix D shows analysis that indicates the beginning of an upward trend in claims frequency beginning in January 2018. If the assessment of liability is unduly favouring claimants, this could have contributed to this upward trend. **EY Claims Review Page 26 Section 4.3 Last Paragraph**	icare has observed a slight increase in claims volume. Part of this increase can be attributed to a 3.5% increase in employment in NSW. Based on the June 2019 actuarial valuation by Finity, the claim frequency for the financial year 2016 to 2019 has oscillated around 0.33 claims per million dollar of inflation adjusted wages. icare acknowledges that there has been an increase in claims for industrial deafness and primary psychological claims. In addition, the new claims model introduced online claim lodgement capability. The portal resulted in a change in the proportion of direct lodgement of claims by workers and third-party representatives from approximately 5% of all claims to around 15% of all claims. icare has inferred that this increased proportion reflects icare's commitments to a fairer system and greater access to the ability to lodge claims by workers that was previously unsuccessful due to the decentralised scheme agent environment. Liability decisions are made after contact with the employer.

2.3 Psychological Injury Claims

As of June 2019, psychological injury claims have increased to 5% of all claims reported. This is in line with similar experience in other workers compensation schemes across Australia. icare recognises the challenge that this creates for employers and workers. Psychological claims are complex, have longer periods of treatment, can be more costly and good return to work outcomes can more difficult to achieve.

Issue raised	icare response: clarification of facts and actions
The number of claims with indications of secondary psychological injury claims for the 2018 accident has increased significantly over previous years **EY Claims Review Page 44 Appendix E Key Findings / Conclusion Dot Point 4**	icare disagrees with the EY findings that there are indications of an increase in secondary psychological injury claims. icare payments data indicates that 2.6% of physical injury claims in calendar year 2018 receive payments for more than eight sessions of psychological services. Treatment below this level may indicate proactive, preventative or comorbidity support. This is largely in-line with 2017 calendar year where 2.8% of physical injury claims received more than eight sessions of psychological services.

Issue raised	icare response: clarification of facts and actions
This experience coincides with icare's less adversarial approach to claims management **EY Claims Review Page 44 Appendix E Key Findings / Conclusion Dot Point 5** *In regard to the psychological injury claims. the claims file review highlighted the variability of EML's case management experience. Some claims were handled very well while others were handled very poorly, and this has substantial ramifications for both the injured worker and the cost to the NI scheme* **EY Claims Review Page 7 Table 2 Findings Dot Point 2**	In addition, icare data shows a peak in physical injury claims receiving psychological treatment for late 2017. Since 2018, our data shows a declining trend. icare action icare has developed a mental health strategy with three themes to respond to the growth in the number of reported psychological injuries as well as to focus on effective approaches to managing psychological injuries: • Establishing a specialised team with skill sets to understand the implications of and manage psychological injuries • Complex claim triage for liability decision making, including subsequent liability, utilising a multidisciplinary approach • Mediation intervention – trial underway with a large employer • Reduction in low value care using the MSP as an expanded advisory service and appointment of a psychiatrist to the MSP

3. Outcomes

3.1 Return to Work

icare agrees that there has been a decline in RTW rates and acknowledges that our operational challenges in 2018 have contributed to this and have impacted RTW outcomes.

There are also several environmental factors that can contribute to a deterioration in RTW, including legislative and economic environmental factors. This is also evidenced by SIRA's RTW publication on its website for other NSW insurers.

icare believe the historical workers compensation scheme model of measuring RTW using financial payments provides a more reliable metric of current performance.

Our current 26 week RTW rate is 81%, as at end September 2019, up from 79% (as at June 2019).

Issue raised	icare response: clarification of facts
Return to Work metric *… The fact that the NI has set its own measure rather than use the defined measure required by SIRA indicates a poor relationship between the entities and low regard for SIRA as the regulator.* **IR Report Page 12, Section 3.3.5**	**RTW metric** There is a variety of RTW metrics, and both metrics used by SIRA and icare are complementary. icare's measure of RTW using the historical workers compensation scheme model is based on financial payments, which are subject to audit. SIRA's metric is based on seven data fields of which five data fields have historically had a high level of inaccuracy. icare agrees that there are theoretical advantages for this metric as it enables recognition of partial RTW. However, it is undermined by data quality issues, both historical and current.

Issue raised	icare response: clarification of facts
Return to Work performance *Deterioration in NI RTW performance followed shortly after the introduction of the new claims model in January 2018. Further deterioration occurs following the launch of the Nominal Insurer Single Platform (NISP), in February 2019.* **IR Report Page 42 Section 5.5.4** *Prior to initiating the Review, in August 2018, SIRA observed deteriorating trends with the performance of the NI. It was initially considered that the deterioration was the result of poor data quality provided by the NI, impacting the results.* **IR Report Page 52 Section 5.9.1**	**RTW performance** In addition to the challenges that icare has experienced, there are several environmental factors that can contribute to a deterioration in RTW. Some of these factors include: • Changes in employment conditions such as gig economy, flexible working environments and a shift to a more contingent workforce • Changes in economic conditions and its impact on suitable duties, hiring practices and particularly in some industries such as construction, and • Behavioural changes by participants in the ecosystem as it adjusts to changes. icare has taken definitive action to respond to changes in return to work outcomes through performance improvement initiatives, scheme wide training and targeted interventions for specific claims cohorts.

Table 1: Comparison of icare and SIRA RTW metric

RTW Metric	Purpose	Pros	Cons
icare RTW metric **(weekly payments based)**	To measure RTW performance through the proxy of ceasing weekly benefits.	• Relatively simple metric • Based on payments data which is reconciled and audited. Data quality is less of an issue. • 3 month rolling average that is responsive to current performance. This is useful in close monitoring of performance.	• Proxies RTW using payments and as such can be affected by payment lags/speed ups. • Doesn't cover partial RTW. • The metric has a heavy financial focus.
SIRA RTW metric **(work status based)**	To measure RTW outcomes, both partial and full, without any financial linkage.	• Captures partial RTW outcomes. • Has the potential for further breakdown of injured worker outcomes.	• Utilises manual data fields that must be updated more than 100,000 times per month. As such the measure heavily affected by data issues both current and historical. • 12 month rolling period is too long for operational purposes of responding to emerging experience or measure. • Overly complex and appears to have various technical inconsistencies. The QLIK code shared by SIRA was over 1,000 lines long.

3.2 Medical outcomes

NI medical costs have increased significantly since 2015/16. Medical costs include the indexation of the Australian Medical Association (AMA) rates and Private Hospital rates, and the Public Hospital code changes by SIRA.

In response, icare has commenced a range of evidence-based tools, training and monitoring initiatives focussed on supporting case managers to make effective decisions that support value-based treatment and care.

Issue raised	icare response: clarification of facts and actions
In June 2014, the Minister …. advised that there had been a significant improvement in the scheme's financial position and announced several enhancements to the 2012 workers compensation reforms. *These changes were expected to increase the scheme's liability by approximately $280m…* **IR Report Page 9 Section 3.2.6 and 3.2.7** *The 31 December 2018 valuation report from Finity as the icare actuary identified: …* *c) Medical costs increase of 1% = 4.9% increase in liabilities* *In considering the analysis above, together with the deteriorating performance trends, there are indicators of poor file management and poor understanding of, and skills required for, compliance with legislation and best outcomes. When considered together with the staff turnover rate….* **IR Report Page 69 Section 7.4.5, 7.4.6 and 7.4.7**	**Clarification of facts** There are overall cost pressures in the health care system due to higher cost of diagnostics and treatment and the ageing population. Analysis by Finity of the Australian Institute of Health and Welfare dataset shows that the complexity of medical treatments in workers compensation have increased across many of the states in Australia. Quarterly average medical payments per claim have increased by about 100 per cent for both the Nominal Insurer (NI) as well as Self and Specialised insurers in NSW according to report (figure 21). The utilisation of medical treatments has increased under the NI at a higher rate than Self and Specialised insurers due to a combination of factors: • removing incentives and behaviour that may have denied necessary treatment • Self and Specialised Insurers are more able to influence their injured workers in the treatment path compared to the Nominal Insurer, who is the insurer of last resort in the NSW workers compensation. In addition, the Nominal Insurer has grown through both NSW employment growth and inflation. This explains the rest of the difference in medical spend changes between NI and Self and Specialised insurers. In icare's analysis, the medical payments per annum has increased by approximately $230m from FY2015/16 to FY2018/19. Of the $230m, approximately $24m is within icare's ability to directly control. These relate to areas where icare believe it can enhance its capabilities to reduce costs. icare has provided SIRA with comprehensive input on where the structural challenges of the scheme contribute to increasing utilisation and costs. These include: • addressing regulated costs and indexation of fees for medical procedures in NSW • tightening the 'reasonably necessary' test to determine treatment in NSW to 'reasonable and necessary' in line with other Australian jurisdictions • tightening guidelines to support the delivery of value-based care • use of healthcare clinical coding, rather than insurance coding, for visibility over the medical management of workers compensation claims

3.3 Provider Outcomes

As icare has increased its active oversight of the scheme, it has been able to achieve greater transparency on compliance and opportunities for oversight of particular areas of spend. Concerns raised by SIRA regarding compliance to payments have been investigated and performance in the new claims model shows higher rates of compliance than with the previous claims model. icare remains focussed on improving all areas of spend.

Issue raised	icare response: clarification of facts and actions
The review indicated poor governance over transactions between 2017 and 2018. **IR Report, Page 48, Section 5.7.15** *icare introduced a lower maximum fees list for diagnostic imaging services effective 1 June 2018 and this explains some MRI fees being below the maximum gazetted fee. However, when analysing payments coded OP200 and OP210, there were a significant number of payments for a single date of that exceed the maximum gazetted fee.* **IR Report, Page 49, Section 5.7.17**	There has been historical behaviour in the scheme of incorrect coding and charging. Attribution of operational challenges that have historically existed in the scheme to the icare claims service model is not supported by the data presented in the IR Report, as it shows that the performance was poor before the implementation of the model and before icare made changes to the fees in June 2018. In addition, MRI costs as a proportion of total medical expenses of the scheme has reduced from 2.9% in FY2015 to 2.4% in FY2019. icare's recent investigations of approximately 6,000 claims show: • **0.24%** of relevant spend for imaging services were duplicate payments • **1.8%** of relevant spend were due to exceeding maximum gazetted rates Issues raised in the diagnostic imaging space have not been impacted by icare's interventions to date. icare's interventions to improve payment adherence include: • For claims on the new claims systems, there are validations to restrict payment outside of gazetted rates or SIRA rules and dashboard reporting to ensure compliance • Reinforcement of appropriate funding practices with scheme agents and case managers, including regular reviews by KPMG of internal controls, which forms part of icare's year end processes • Review of supporting tools / mechanisms (for example, training and knowledge articles) • Refresher training for claims staff • Recovery activities by the scheme agents to date have achieved approximately $140,000 related to overpayments over the past 2 years • Enhancement of system controls to identify potential duplicate payments arising from 2 providers billing for the same day, supported by exception reporting, implemented in November 2019 • Review of payments for the largest spend areas As the regulator it is SIRA's role to pursue non-compliance by providers. icare provides SIRA with data when sufficient evidence of this exists.

3.4 Liability

icare acknowledges that operational challenges contributed to delays in treatment approvals. Conclusions drawn by EY about the relationship between the use of provisional liability and delayed treatment or declining RTW are not evidence based and draws from a sample of claims that cannot be extrapolated to the whole scheme.

icare's use of provisional liability is consistent with the intent of the legislation, Guidelines and guidance material issued by SIRA. This includes the requirement to commence payments within seven days of injury even if a claim has not yet been made. icare agrees there has been a deterioration in RTW rates, but does not support the conclusion that this is attributable to the application of provisional liability.

Issue raised	icare response: clarification of facts and actions
Provisional Liability *At annual rate of claims notifications around 0100,000, 78.5% are in the minimal and moderate injury severity category. EY found that a larger volume of claims in the "empower" and "guide category", which have little to no case management, had provision liability status determined rather than a formal liability decision…* **IR Report Page 69 Section 7.4.8** *There is a clear and significant increase in the use of provisional liability since the implementation of the icare claims model. This is illustrated in figure 7…* **EY Claims Review Page 20 Section 3.3.2** *There were a small number of legislative breaches found on the claims reviewed. These were described in section 3 and relate primarily to the limits involved with provisional liability.* **EY Claims Review Page 31 Section 5.3.1**	The report makes remarks that provisional liability is being used beyond its intended purpose and is an approach that can lead to distrust and an adversarial atmosphere. It also implies that the use of provisional liability prevents good case management practices which is inconsistent with both legislative intent and design of the service model. In response, icare has been working on improving operational performance to promote proactive case practices. • Having regard to the broad purpose of the legislation and the specific purpose of s267, the increase in provisional payments is linked to the requirement to commence provisional payments within 7 days after injury even if a claim has not yet been made, affording the insurer very limited time to determine whether there is a clear reason to refuse or accept liability completely • Queensland legislation has recently introduced a similar legislation in order to promote early access to treatment and recovery for psychological injury claims • The making of payments on a provisional basis gives the scheme agent more time to make a formal liability decision regarding a claim and provide a greater opportunity to gather additional information. Furthermore, it provides the worker with financial assistance and early intervention for treatment while they undertake any necessary investigations and determine liability. icare's approach to liability has changed over time but does not correlate with decline in RTW. Proactive management and decision rights have almost halved the average time to a liability decision on a fatality claim between 2012 and 2018. The CDR data from August 2019 identifies that 343 claims have exceeded the medical expense limit prior to a decision on liability. This is less than 0.05% of the claims in which provisional liability was applied on the claim.

4. References

- TAB A: Accepted Recommendations
- TAB B: Financial Performance
- TAB C: Expenses
- TAB D: Claims
- TAB E: Premiums and Policy
- NI Report – *Report of the Nominal Insurer NSW Workers Compensation Scheme Independent Reviewer*, Janet Dore (November 2019)
- EY Claims Review – *Compliance and Performance Review of the Nominal Insurer, Part 1: Claims management*, Ernst & Young (15 November 2019)
- EY Premiums and Policy Review - *Compliance and Performance Review of the Nominal Insurer, Part 2: Premiums and policy review*, Ernst & Young (15 November 2019)
- EY Expenses Review - *Compliance and Performance Review of the Nominal Insurer, Part 3: Expenses Review*, Ernst & Young (15 November 2019)

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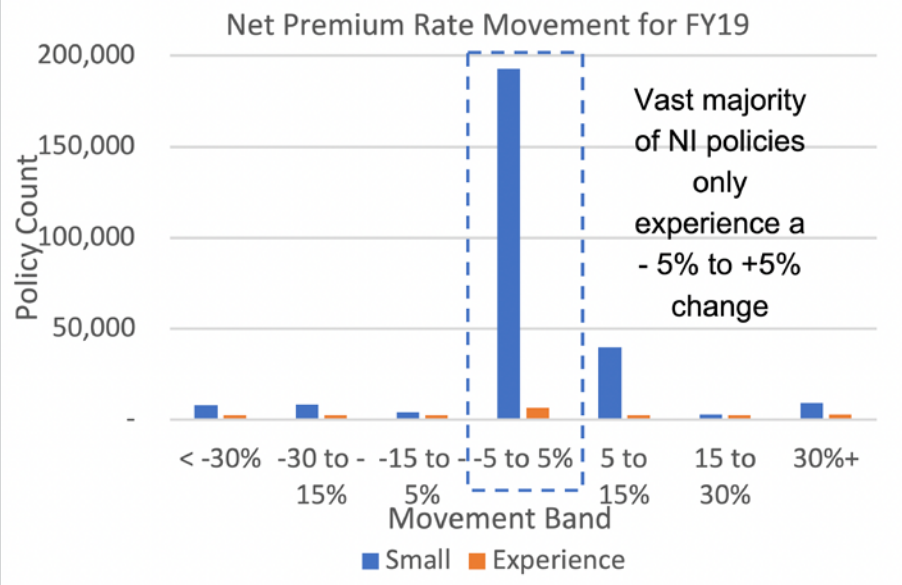
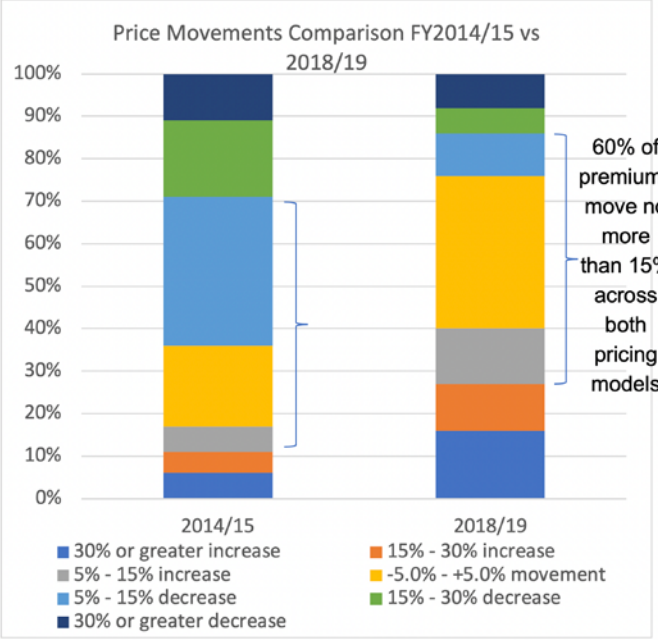
TAB E: Premium and Policy

1. Premium model algorithm and volatility of policyholder experience

Issue raised	icare response: clarification of facts and actions
"One of the primary themes … was the inconsistency or volatility in the premium pricing for workers compensation." **IR Report Page 64, Section 6.2.8** **Related references:** **IR Report Page 17-18, Section 4.4.7; Page 60-61 Section 6.2.; and Page 64, Sections 6.2.8-6.2.10** **EY Premium and Policy Review, Page 3-6, Section 1.4; and Page 20-25, Section 5**	**Factual omissions from the Independent Reviewer's findings** The Independent Reviewer's findings and observations in Section 6: NI Compliance with MPPGs of her report are implied to be scheme wide. However, the findings are based on EY's analysis in their Premium and Policy Review, which is expressly limited to experience rated employers (representing 5% of employers). For example, a complete representation of premium changes in FY2018/19 across the scheme is: **Figure 1**  Note that small business policies only move within a maximum limit of 5% each year. The small policies shown outside of the "-5% to +5%" band relate to small policies that are part of a much larger group of companies and hence are experience rated as per section 6.2 of the MPPGs. Material facts omitted from the Independent Reviewer's report in relation to historic premium movements are: 1. Only 5% of all scheme policies are experience rated, including Loss Prevention & Recovery customers. Of those, approximately 60% of experience rated policies in any given year do not have a claim and therefore have little to no change to their experience premium. 2. Premium capping did not apply in FY2017/18 and was only introduced in FY2018/19. 3. For the remaining 95% of small rated employers, the premium movement was primarily contained to a less than 5% in the 2017 to 2019 policy periods.

Issue raised	icare response: clarification of facts and actions
	Non-disclosure of limitations of EY premium formula analysis The Independent Reviewer has not provided the following context around EY's analysis of the premium formula: • Changes in the claims costs for an employer are measured relative to the scheme average and hence only result in a premium rate increase if performance is worse than the scheme. • The EY analysis does not test if there is actual correlation between an employer's premium rate movement and their underlying claims frequency or average claims size relative to the scheme. That is, the EY analysis does not test if employers with more claims are paying more premium, and those with fewer claims are paying a lower premium. This fundamental test is not reported nor disclosed in the EY Premium and Policy Review or the Independent Reviewer's findings. This analysis is completed by icare as part of the premium filing. **Selective observations by the Independent Reviewer** Observations made by the Independent Reviewer on premium volatility are selective and do not callout a balance of observations when contrasting the current premium formula model to the model prior to FY2015/16. For example, the analysis conducted by EY in Figure 8 of Section 5.3 indicates the following: **Figure 2** 

Issue raised	icare response: clarification of facts and actions
	• In FY2018/19 approximately 60% of experience rated premiums moved no more than 15% up or down. This outcome is consistent with the FY2014/15 results prior to the introduction of the new model. • the number experience rated premiums moving no more than 5% up or down has close to doubled when comparing the FY2018/19 results to the FY2014/15 results, demonstrating greater stability over the old premium model **Contextual omissions by the Independent Reviewer on the premium formula introduced in 2015/16** The new premium model was introduced in FY2015/16 to address specific limitations with the old model, namely: • To remove inconsistencies in the calculation brought on by the inclusion of claims estimates (for the remaining cost of each claim) and only focussing on the actual payments made in the last three years. • To remove the volatility from including infrequent fatality claims and focussing on the systemic claims experience by using by paid weekly benefits. • To reduce the level of cross subsidisation and increase the level of equitable premium contribution from those employers with poorer claims experience. Hence the intent that employers with deteriorating claims experience should experience higher premium increases. This intent is consistent with the MPPG principles of: ◦ Premiums are fair and reflective of risk ◦ Balance between risk pooling and individual employer experience • To encourage all employers and service providers to focus on injury prevention and recovery at work, supported by the new premium model's predominate use of paid weeklies. • To encourage and directly reward industries who improve their performance relative to the scheme. **icare action:** We note that icare's annual premium filings since FY2015/16 onwards have not been rejected by SIRA. We note that SIRA has not requested of icare that the premium formula prior to FY2015/16 be reinstated. The continued use of the current premium formula requires resolution between icare, EY and SIRA.

Issue raised	icare response: clarification of facts and actions
	However, icare acknowledges that during the transition to the new premium model, a level of price increase has flowed through to those employers with poorer claims experience. icare has been jointly working with SIRA on a pricing review of the NI since June 2019. The review is overseen by the Joint Premium and Prudential Oversight Committee chaired by both SIRA's Executive Director and icare's Group Executive Prevention & Underwriting. The objective of the review is to ensure price stability and earlier notice to employers of premium changes to help with their cash flow planning.

2. Discounts and Loadings

Issue raised	icare response: clarification of facts and actions
IR Report Page 62, Section 6.2.4(a): *"Concerns about discounts being applied when premium holders complained was due to elements of the premium formula creating large movements in premium. Although the application of discretion on requests might have been reasonable, it was not provided for in the 2018/19 premium filing to SIRA and creates inequity for policy holders who do not query their invoices."* **Related references:** **EY Premium and Policy Review Page 12-13, Section 3.2; and Page 15-18, Section 4.2**	**Factual omissions on the allegation of "discretionary" premium reviews** icare did not specify discretionary discounts in the 2018/19 (or previous) premium filing as icare has not applied discounts that are discretionary (which icare interprets to mean arbitrary), as stated in the Independent Reviewer's findings. The Independent Reviewer omits the following facts, which expressly form part of EY's analysis, when inaccurately concluding that icare is non-compliant with the premium filing: 1. **Premium Appeals:** icare applies a review process for premium appeals as required under section 8.5 of the MPPGs. The review process for premium appeals is documented in icare's premium filing (Part D p9), and includes icare's Customer Resolutions Framework (specified in Annexure M of the 2018/19 premium filing). Further, icare provided EY during their review with detailed rationale for the premium appeals. 2. **Information on SIRA Policy Central Data Repository (CDR) Discrepancies:** EY make the following observations (to which icare agrees) in section 4.2.2 of their report as to why the data in SIRA's Policy CDR may not have up to date claims data historically. That is: • icare underwriters manually validated all incoming claim cost data supplied by claims agents during the transition of premium calculations from scheme agents to icare. • Data was validated against the source claims data and errors updated in the premium calculation. Manual correction of this data historically did not update SIRA's Policy CDR database as there was not an automated update link back from icare's system. • In these instances, replicating the premium calculation using claims costs from SIRA's Policy CDR will not match the premium issued for historic policies – thereby appearing as adjustments to the final premium. icare implemented system changes from 14 July 2019 to ensure any corrections to claim cost data used in premium calculations will now update SIRA's Policy CDR – allowing SIRA the ability to replicate calculations consistently.

Issue raised	icare response: clarification of facts and actions
	3. **Premium discount and loading process:** icare agrees with section 4.2.4 of the EY Premium and Policy Review, which acknowledges the robust analysis and documentation of the premium review process: *"…the additional information provided by icare confirmed the rationale underlying the decision, demonstrated the derivation of the adjusted premium, and included supporting evidence / commentary and communication (internal and external).* ***The processes do not appear to be unreasonable.****" (Emphasis added)* **Contextual omissions from the Independent Reviewer on customer communication** Contrary to the Independent Reviewer's implication that only customers who query their invoices receive a discount, icare notes that all policy renewal documents explicitly state that customers can contact icare should they have any questions regarding their premium: *"If you require any further assistance or information, or have difficulties with making a payment, please contact us on 13 44 22."* In 2018/19, less than 150 premium appeals were requested by customers of icare – that is less than 0.05% of all policies in spite of every renewal containing the above advice to contact icare. icare provided registers to SIRA throughout the 2018/19 year and ongoing covering all policies subject to review. Premium appeals are typically made for a claim or claims to be reviewed and potentially re-evaluated by the claims team operating separate to underwriting. The reviewed and updated claims cost is then input into the approved premium formula. **icare action:** **Policy CDR – Claims Cost Updates to SIRA** icare implemented system changes from 14 July 2019 to ensure any corrections to claim cost data used in premium calculations will now update SIRA's Policy CDR – allowing SIRA the ability to replicate calculations consistently.

3. Policy File Review

Issue raised	icare response: clarification of facts and actions
"Many submissions and consultations have referred to premium setting, late notices, variations, and the opaqueness of calculations. **IR Report Page 60, Section 6.2.1** *EY conducted a review on behalf of SIRA on these matters involving an audit of compliance with relevant guidelines including the MPPGs."* **IR Report Page 60, Section 6.2.2** **Related references:** **EY Premium and Policy Review Page 10, Section 2.3.1; and Page 15-19, Section 4**	**Factual omissions from the EY Policy File Review** To the extent that the Independent Reviewer's report relies or comments on EY's findings from their Policy File Review (in particular, the Independent Reviewer's findings on discounts and timeliness), no context is given around the scope of that review. Without this context, the Independent Reviewer's findings could be interpreted as indicative of the broader scheme. EY expressly state at 2.3.1 of their report that the 38 files assessed were taken from a targeted population of 900 policies identified as potentially having premium deviations of greater than 20% from the calculated premium formula based on EY's own analysis. Further, these 900 policies are a subset of the scheme's 320,000 policies.

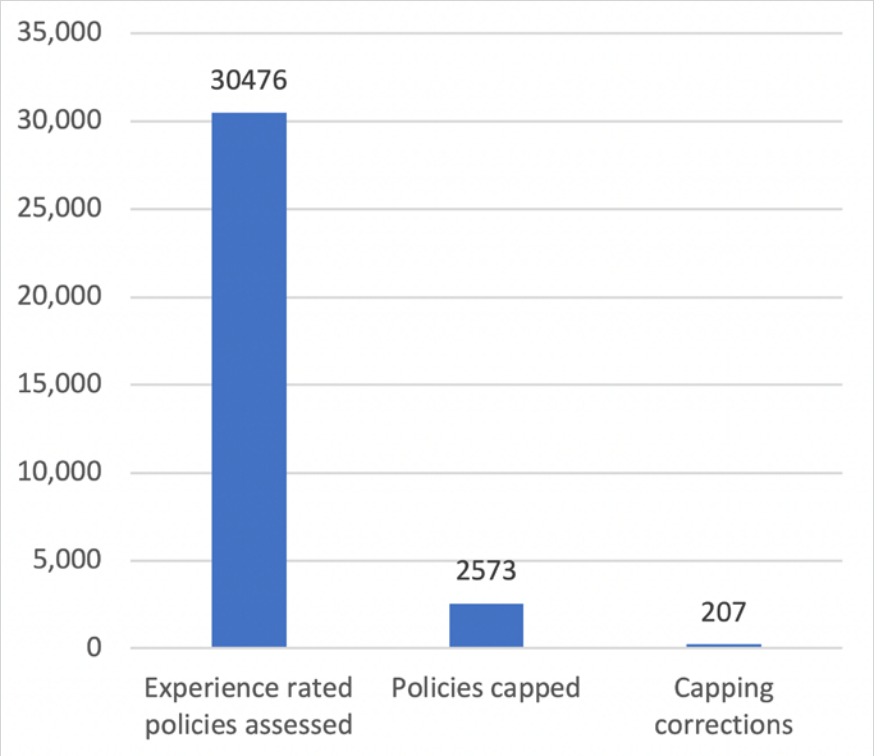
4. Timeliness of Renewals

Issue raised	icare response: clarification of facts and actions
"The timeliness of the renewal notices and premium calculations for 2018/19 was in breach of the MPPGs in 70% or more cases reviewed by EY" **IR Report Page 63, Section 6.2.6** **Related references:** **IR Report Page 63, Section 6.2.7** **EY Premium and Policy Review Page19, Section 4.4**	**Contextual omission by the Independent Reviewer on timeliness results** The Independent Reviewer's timeliness findings are based entirely on the 38 files reviewed, which were taken from a targeted population of 900 policies known to have required manual review as noted above in item 3. Contextual facts relevant to the broader policy population are: 1. In 2018 icare implemented an automated renewal process for the 95% of policies that are not experience rated to remove employer administration and increase service delivery. In 2018/19 over 300,000 (97%) renewal and new business policies were provided to non-experience rated employers within the required timeframes, with the remaining policies (3%) delayed. The delayed policies were part of a policy group, who must renew their policies on the same day. 2. For the 5% of policies that are experience rated: • 60% of experience rated policies were renewed on time, • 27% of experience rated policies were delayed. The delayed policies were part of a policy group, who must renew their policies on the same day,

Issue raised	icare response: clarification of facts and actions
	• 9% of experience rated policies received a delayed renewal to allow capping to be applied correctly due to the manual process applied in FY2018/19. The manual process was required due to late confirmation by SIRA (letter dated 27 March 2018) that premium capping was required to be implemented by icare - this cost the scheme $65m by reducing premiums collected from employers that had much higher claims costs, • The remaining 4% were sent renewals outside the required timeframes primarily due to system delays. **icare action** icare acknowledges the inconvenience to those employers whose policies were issued late. icare continues to review systems and controls to seek improvements, such as automating capping on 14 July 2019, which now applies to the 2019/20 renewals including all 2018/19 hindsight adjustments. icare has engaged KPMG to provide independent assurance of the timeliness of renewed policies from the 2018/19 policy year.

5. Capping and Flooring

Issue raised	icare response: clarification of facts and actions
"...incorrect premiums outside the 30% cap required by the MPPGs and the 30% floor required by icare's premium filing were found by EY in almost 5.5% of policies issued in 2018/19. System improvements are expected to improve these issues, but it is not clear whether 2019/20 policies will be corrected in time or will be reliant on manual adjustment." **IR Report Page 63, Section 6.2.5** **Related references:** **IR Report Page 62-63 Section 6.2.4(b)** **EY Premium and Policy Review Page 13-14, Section 3.3; and Page 18, Section 4.3**	**Further information on capping and flooring** icare does not dispute that 0.7% of 2018/19 experience rated policies exceeded the 30% experience rated cap or floor (207 policies), but notes that this was due to a combination of an interim manual process and the complexities of the uncapped policies. icare implemented a capping regime with the introduction of the new model in 2015 and advised that it would provide this relief for three years for variations in the new model to be assessed – it was not part of the 2018/19 price filing on this basis. The manual capping process in 2018/19 was required due to the limited timeframe between icare receiving the approved MPPGs, which confirmed the capping requirement, and their commencement – hence icare was unable to implement an automated solution in the timeframe. Over 30,000 experience rated policies have been assessed for premium capping since implementation.

Issue raised	icare response: clarification of facts and actions
	Figure 3  The complexities in the uncapped policies that resulted in capping or flooring not being applied was due to employers' circumstances or claims history changing in the middle of the policy period. It is not always clear how or whether capping should be applied in these circumstances as these scenarios are not clearly prescribed or catered for in the MPPGs. Examples of the complexities include: • where one organisation acquires another organisation or organisations, effectively combining the claims history of two or more independent policies into a new single policy, • a group of employers under the grouping provisions of the 1987 Act change their group's structure, effectively minimising the group's premium, • the claims history of a policy has been re-assessed in the middle of a policy period resulting in a revised premium prior to the policy renewal, • a change in legislation or regulation that impacts on employer wages or claims in a significant way, • an employer transitioning from small to experienced rated in the middle of a policy period, and • short term policy periods of less than 12 months.

Issue raised	icare response: clarification of facts and actions
	icare action: The manual capping process has been superseded by the automated capping solution that was implemented on 14 July 2019. The solution applies to the 2019/20 renewals including all 2018/19 hindsight adjustments. This means that any experience rated policy that was missed under the manual process will be corrected automatically when the employer provides icare with their actual wages for the 2018/19 policy year. icare has engaged KPMG to provide independent assurance of the automated premium capping solution, and that any uncapped policies from the 2018/19 policy year have been remediated.

6. References

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- EY Expenses Review - *Compliance and Performance Review of the Nominal Insurer, Part 3: Expenses Review*, Ernst & Young (15 November 2019)