Compliance and Performance Review of the Nominal Insurer

State Insurance Regulatory Authority

December 2019

PART 2: Premium and policy review

Building a better working world

Table of contents

1. Executive Summary

1.1 Nominal Insurer review

In February 2019, the State Insurance Regulatory Authority (SIRA) commenced an integrated compliance audit and performance review of the NSW workers compensation Nominal Insurer (NI or the NI scheme), which is managed by icare (icare workers insurance). EY has been engaged by SIRA to support the independent review being conducted by Ms Janet Dore.

The terms of reference for the review (included in full as Appendix A) include:

- An audit of compliance with relevant guidelines including the Market Practice and Premium Guidelines (MPPGs), and
- A performance review in relation to claims management, return to work outcomes and other objectives under the legislation

This report covers the first item in the terms of reference above. The second item of the terms of reference is covered in a separate report.

1.2 EY's Scope

SIRA commissioned EY to assist with the performance review and EY's full scope is outlined in section 2. This report summarises our findings in regard to the NI's premium system. Findings relating to the NI's claims management approach and other areas of financial performance are contained in separate reports.

EY's scope for this premium and policy review includes assessing:

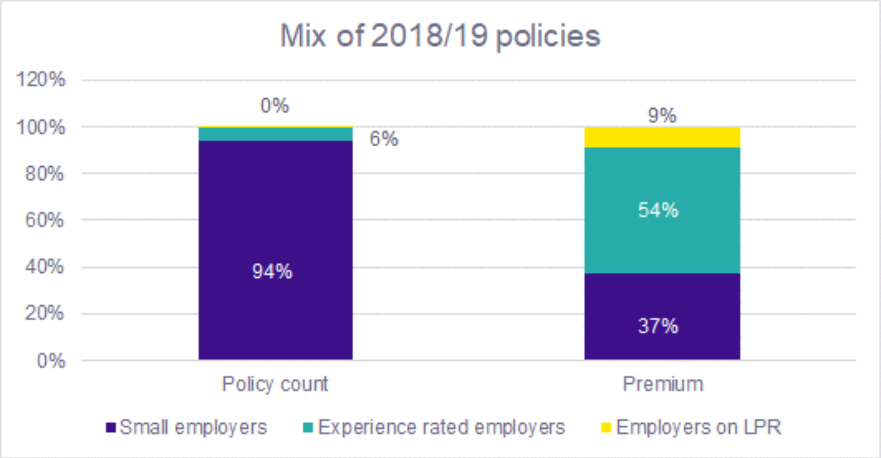
- icare's premium formula and underwriting process against SIRA's stated pricing principles and compliance with the MPPGs
- The experience of policyholders in relation to premium rate movements, delays in the renewal process and other matters identified in complaints data

EY's approach to performing this review is summarised as:

- Comparison of premiums charged to experience rated policyholders with premiums calculated for these policyholders, utilising the policy parameters stored in the policy file, to identify policies with different charged premiums (i.e. "discounts" / "loadings")
- Analysis of these policies to assess compliance with MPPGs and rate filings with respect to capping and flooring
- Sampling from this policy group and performing a file review to identify reasons for the differences between charged and calculated premiums and assess compliance with respect to timeliness of premium notices
- Review of the premium formula and other documentation supporting icare's premium framework
- Analysis of premium rate experience for experience rated policies under the new premium formula, including premium rate changes over time.

The analyses in this report have focused on experience rated policies. We note that although these policies represent just over 5% of 2018/19 policy numbers, experience rated policies make up almost 55% of total premium. This is demonstrated in the graph below.

Figure 1: Breakdown of 2018/19 policy year by product



1.3 Background

There was a fundamental change to NSW workers compensation premiums system with the implementation of the Insurance Premiums Order 2015/16 (2015/16 IPO) by WorkCover NSW. The 2015/16 IPO introduced a new premium formula for experience rated premiums with a fundamentally different approach to deriving the experience premium for experience rated customers.

In May 2016, SIRA introduced a new premium regulation system, with all licensed insurers required to comply with Workers Compensation Market Practice and Premiums Guidelines (the MPPGs or Guidelines) and submit premium filings outlining their premium rate structures to SIRA. The MPPGs specified:

- five fundamental principles that filed premiums need to comply with
- how insurers were to present premium filings to SIRA
- how SIRA would assess those filings
- various other premium and policy matters

From a regulatory perspective, key issues related to icare's experience rated premium model identified through the various premium filing review processes and from market feedback include:

- under the new premium formula, there have been significant changes in premium rates for experience rated policies between policy years, both increases and decreases, as a result of only relatively small changes in claims cost
- indications that premium rate increases have not been capped for some employers despite the 2018/19 MPPGs including a requirement to cap 2018/19 premium rate increases at a maximum of a 30% increase over the 2017/18 premium rate
- market perceptions that "discretionary discounts" were being provided by icare to experience rated employers that complained about large premium increases, creating a potential competitive advantage
- perceptions around poor timeliness in the renewal process.

1.4 Key Findings

EY performed a range of analysis on the policy data to understand the experience of policyholders. The analysis was based on data contained in the 31 March 2019 policy database without adjustment. We assumed at the start of the review that the policy data is accurate and that the premium information reflects icare's premium methodology.

The policy data analysis assessed:

- the extent of differences between calculated and charged premiums. The analysis indicated that potentially up to 15% of 2018/19 policyholders (renewed up to March 2019) may have received a lower or higher premium relative to the expected premium based on icare's premium formula and the detail contained in the policy file (this cohort includes policies which have not been capped or floored)
- the extent of premium rate changes experienced by policyholders. This analysis indicated that almost 40% of experience rated policyholders had a premium rate change (increase or decrease) of 30% or greater in at least one of the 2017/18 or 2018/19 premium renewal years
- the extent of non-compliance with the MPPGs in regard to the 30% cap. The analysis indicated that the calculated 2018/19 experience premium rate was greater than 30% above the 2017/18 experience rate for approximately 2% of policies. That is, 2% of experience rated policies did not appear to have been capped at 30%, which is required by the MPPGs.

We investigated the issues noted above through a review of policy files randomly sampled from the group of policies which have a greater than 20% difference between the calculated and charged premium (this was a population of approximately 900 policies).

The aim of the policy file review was to understand icare's processes in relation to policy capping / flooring and to making adjustments to premiums calculated from the premium formula, as well as other areas of compliance. The file review identified a number of issues around the premium process and data quality, providing further understanding of the potential reasons underlying the results of the policy data analysis. We understand that icare is addressing some of these issues.

Our key findings from the review of the NI premium system are set out in the table below.

Table 1: Key findings

Aspect reviewed	Findings
Comparison of actual premiums charged with expected premiums based on the premium formula	• Just over 10% of experience rated policies written in 2018/19 (to March 2019) appear to have been charged a premium that is different to the premium formula, allowing for capping and flooring (see Table 2 in section 3.2) • The file review identified the following reasons why icare has deviated from the premium formula o incorrect claims costs (C values) within the policy database o the underwriter had used judgement to provide the policyholder with a discount. icare has informed us that this only occurs following an employer premium appeal o capping or flooring was not applied correctly o errors in the calculated premium where a key variable (CPA) was incorrectly determined
Issues with claims costs	• The process for determining claims costs (C values) for inclusion in the premium formula appears to have a number of flaws • Claims data for premium purposes is provided separately by scheme agents as there is a lack of integration of policy and claims systems • Errors have been identified with this data, but only through customer input or underwriter knowledge, as there is no reconciliation process between the claims database (CDR) and the C values provided by scheme agents. That is, there is a lack of governance in the process to ensure accuracy of claims costs • There may therefore be other unidentified cases where the C values and consequently the premiums are incorrect • Guidewire does not have the functionality to allow correction when errors are identified, requiring a separate manual calculation outside the system; this situation does not appear to be infrequent (a number of files reviewed required manual adjustment) • icare indicated that upcoming system improvements are expected to allow rectification of incorrect data in the policy CDR. In addition, icare will implement a greater level of checking of scheme agent files against cost of claims reports.
Premium discounts	• A number of the policies reviewed have had adjustments made to the "C" values of the experience rating formula which resulted in the employer receiving a premium discount • Discussions with icare indicated that all discounts applied to premiums were a result of premium appeals made by employers. icare includes a premium appeal process in its rate filing as required by the MPPGs (section 8.5) • Section 8.5.6 of the MPPGs also requires the insurer to report all complaints, reviews and appeal activities, findings and outcomes to SIRA on a quarterly basis. We understand that this process is now in place between icare and SIRA • Based on the files reviewed and the supporting evidence provided, the process followed by icare for determining a premium discount, as identified during the policy file review, does not appear unreasonable. However, we have not assessed the judgements involved in determining a premium discount

Aspect reviewed	Findings
Capping and flooring	• Analysis of premium experience (see Table 3 in section 3.3) indicates that the calculated premium for 14.9% of 2018/19 policies (renewals to March 2019) required capping (i.e. the 2018/19 premium rates were over 30% higher or 30% lower than the previous year) • The analysis shows that only 8.3% out of the 14.9% have been correctly capped or floored • 2.4% of experience rated policies were charged more than 30% above the 2017/18 rate, which is in breach of the MPPGs • 3.1% of policies were charged more than 30% below the 2017/18 rate, which is in breach of icare's rate filing • The file review confirmed that a number of files should have been capped or floored but were not • icare acknowledged the error for these cases, citing that the limited timeframe between receiving the approved MPPGs and preparing icare's premium filing meant the capping/flooring process was unable to be automated in Guidewire Policy Center; a manual process was therefore required, with some policies missed • System enhancements are expected to correct this situation, and we understand that these were implemented in July 2019 • SIRA is also seeking clarification as to whether icare has identified all premiums which were not capped in the 2018/19 premium renewal year, the process to rectify an uncapped policy's premium and the communication process
Timeliness of renewals and premium notices	• The policy file review assessed the timeliness of renewal notices and premium confirmations for 32 of the files reviewed • The evidence shows that minimum timeliness requirements were not met for 70% to 80% of the files reviewed for the 2018/19 policy year • This is in breach of the requirements under clauses 8.1.6 and 8.1.7 of the MPPGs
Policy documentation	• Premium notices supplied to Employers do not provide sufficient information as to how the final premium has been calculated • That is, a policyholder is not advised within the premium documentation as to why the premium was adjusted or for what amount
Premium formula and policyholder experience	• The introduction of the new premium formula in 2015/16 resulted in a significant proportion of experience-rated policyholders receiving larger premium increases when compared with the previous premium formula • Issues have been raised around the nature of claims costs included in the premium formula. Only weekly payments are included for up to the first 3 years of a claim's payments, or approximately 5% of the total expected cost of a claim. As a result, the way that the scheme performance measure is applied within the formula exacerbates small changes in claims costs. That is, a relatively small claim payment can lead to a significant premium impact • The analysis of experience has confirmed that small changes in claims cost have resulted in large changes in premium rate, even for policyholders with relatively good claims experience – see Figure 2 below • 23% of policies experienced premium rate increases of more than 30% in at least one of the 2017/18 and 2018/19 premium renewal years, whereas 10% of policies experienced premium rate decreases of more than 30% in at least one of these years • 4% of policyholders experienced 30% plus premium changes in opposite directions

To assess the impact of changes in claims cost on premium rates under icare's premium formula, Figure 2 compares the percentage change in premium rate on renewal for policies renewing in the 2017/18 and 2018/19 policy years against the raw change in claims performance measure (CPM) for policies renewing for those periods. Note that we have not excluded the impact on premium rates of changes in an employer's workers compensation industry classification (WIC) over the year or the impact on premium rates of other factors, as this only impacts a small number of policies – we do not expect the impact to change the conclusions of our analysis.

Each point has been colour-coded to represent the policy's "risk level" at that point in time, as indicated by the policy's claims performance rate[1] (CPR). The colour coding in the graph starts at green to yellow for CPR levels below 100% (i.e. better experience than scheme average) and moves to red for CPR levels up to 300% (i.e. up to 3 times worse experience than scheme average). The size of the dot represents the size of the employer's basic tariff premium band, i.e. larger dots are large size bands.

Figure 2: Change in premium rate compared with change in claims performance measure

The area within the blue circle has been highlighted as it demonstrates that for a significant proportion of policies, small changes in claims cost (x axis) have led to large changes in premium rate (y axis). This occurs even for policyholders with good experience as measured by a CPR below 100% (green points) i.e. there are a number of green points with better experience than the scheme and which have a low CPM change but a high premium rate change. The impact of 30% capping and flooring is also evident (note horizontal lines at both plus 30% and minus 30% premium rate change).

[1] Claims performance rate for a policy is equivalent to the policy's claims performance measure divided by the scheme performance measure (SPM). The SPM represents the overall scheme's claims performance measure. The CPR represents the relativity of the individual policy's claims performance to the scheme's claim performance. Below 100% indicates better than scheme performance, above 100% indicates worse than scheme performance.

1.5 Conclusions

We have investigated a range of issues raised by employers in relation to the NSW WC premiums, with several key themes emerging:

- The current premium formula itself is considered to be an issue within the premium system, as it can produce large increases in premium rates without commensurate changes in claims costs. This has required the implementation of the 30% cap in the MPPGs and intervention by icare through its premium review process
  - We note that there has been a joint working group formed between SIRA and icare to investigate the premium formula and attempt to determine if it is sending reasonable pricing signals to employers. EY has been invited to be part of this working group
- A number of system issues have impacted icare's ability to determine accurate premiums, and there appeared to be insufficient governance in place to identify issues at an appropriate phase in the premium process
  - icare has been required to manually identify cases where capping is required. This manual process has not been comprehensive as policies have been identified that should have been capped but have not been
  - icare has been required to manually identify cases where the claims cost values provided by scheme agents for premium formula purposes are incorrect, however it is possible that there are policies where errors have not been identified and the premiums are therefore incorrect
- Timeliness around renewals appears to have been an issue – it is unclear to what extent this is related to system or other administrative issues

1.6 Reliances and Limitations

Our Report may be relied upon by SIRA for the purpose of the agreed scope only pursuant to the terms of our Contract Agreement SIRA//6358/2016 between EY and SIRA commencing on 20 April 2017. We disclaim all responsibility to any other party for all costs, loss, damage and liability that any third party may suffer or incur arising from or relating to or in any way connected with the contents of our Report, the provision of our Report to the other party or the reliance upon our Report by the other party. We are providing specific advice only for this engagement and for no other purpose and we disclaim any responsibility for the use of our advice for a different purpose or in a different context.

The conduct of this Review has been dependent on the provision of information, including documentation and consultations with relevant stakeholders. The data received and relied upon for this review is outlined in Appendix B. In undertaking this review, reliance has been placed upon information supplied in the consultations and documentation, and has been used without independent verification.

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

Refer to section 6 for complete Reliances and Limitations.

2. Scope and Data

2.1 Introduction

In February 2019, SIRA commenced an integrated compliance audit and performance review of the NSW workers compensation Nominal Insurer (NI or the scheme), which is managed by icare (icare workers insurance). EY is supporting the independent reviewer, Ms Janet Dore, in the review.

The terms of reference for the review include:

- An audit of compliance with relevant guidelines including the Market Practice and Premium Guidelines (MPPGs), and
- A performance review in relation to claims management, return to work outcomes and other objectives under the legislation

The review will be undertaken for SIRA by an independent expert, Ms Janet Dore, and supported by EY and authorised officers of SIRA. The Terms of Reference (TOR) for the review are to consult with stakeholders and undertake analysis of data to provide findings in relation to the NI's compliance and performance, in particular to:

- Assess NI compliance with the MPPGs and identify any unintended consequences, risks and priorities for improvement in SIRA regulation of the premiums of the NI
- Identify the benefits and risks to the performance of the NSW workers compensation system arising from icare's implementation changes to the NI operating model and supporting digital platforms
- Assess the NI's performance in relation to return to work outcomes, claims management (including guidance, support and services for workers, employers and health service providers), customer experience and data quality and reporting.

This report relates primarily to the first TOR. The complete terms of reference are included as Appendix A to this report.

The Independent Reviewer, Ms Dore, and EY will present on their independent findings to the SIRA Chief Executive and Board. The Independent Reviewer may also provide advice to SIRA on any other significant matters, emergent risks or opportunities detected during the review.

2.2 Background to the current NSW WC premium system

There was a fundamental change to NSW workers compensation premiums payable by employers with the implementation by WorkCover NSW of the Insurance Premiums Order 2015/16 to apply to premiums written in the 2015/16 policy year (2015/16 IPO or premiums order). The premiums order introduced a new premium formula with a different approach to deriving the experience premium for experience rated customers.

Over time, icare has made changes to the parameters underlying the 2015/16 IPO experience rated premium formula, however the mechanics of the formula have generally been unchanged.

In May 2016, SIRA introduced a new premium regulation system, with all licensed insurers required to comply with Workers Compensation Market Practice and Premiums Guidelines (the MPPGs or Guidelines) and submit premium filings outlining their premium rate structures to SIRA. The MPPGs specified:

- five fundamental principles that filed premiums need to comply with
- how insurers were to present premium filings to SIRA
- how SIRA would assess those filings
- various other matters

The first year under SIRA and the new premium regulations was a transition year with the MPPGs allowing the continuation of the 2015/16 IPO to apply to premiums in the 2016/17 policy year. The MPPGs were subsequently updated in February 2017 and May 2018 (following consultations with the market) to apply to the 2017/18 and 2018/19 policy year premium filing submissions respectively. A number of specialised insurers continued to apply the 2015/16 IPO premium formula and initial parameters up to the 2018/19 policy year.

EY has assisted SIRA with a review of insurer rate filings for these three policy years, and also for the upcoming 2019/20 policy year.

From a regulatory perspective, key issues related to icare's premiums identified through the various premium filing review processes and from market feedback include:

- significant changes in premium rates for experience rated policies between policy years under the new premium formula as a result of small changes in claims cost
- indications that premium rate increases for experience rated policies have not been capped for some employers despite the 2018/19 MPPGs including a requirement to cap 2018/19 premium rate increases at a maximum of a 30% increase over the 2017/18 premium rate
- perceptions in the market that "discretionary discounts" were being provided by icare to employers that complained about large premium increases, creating a potential competitive advantage
- perceptions around poor timeliness in the renewal process.

2.3 EY's Scope and Approach

The scope of EY's services for this review is contained in a letter to Mr Darren Parker dated 16 May 2019. The letter sets out the terms of the engagement of Ernst & Young (EY, we, our) by the State Insurance Regulatory Authority (SIRA, you) to provide the services specified in the Scope section of that letter. The terms and conditions covering this engagement are as set out in Contract Agreement SIRA//6358/2016 between EY and SIRA commencing on 20 April 2017.

The scope for this premium and policy review includes assessing:

- icare's premium formula and underwriting process against SIRA's stated pricing principles and compliance with the MPPGs
- The experience of policyholders in relation to premium rate movements and delays in the renewal process

EY's approach to performing this review is summarised below:

- Comparison of premiums charged to experience rated policyholders with premiums calculated for these policyholders by the icare premium formula to identify policies with different charged premiums (i.e. "discounts" / "loadings")
- Analysis of these policies to assess compliance with MPPGs and rate filings with respect to capping and flooring
- Sampling from this policy group and performing a file review to identify reasons for the differences between charged and calculated premiums and assess compliance with respect to timeliness of premium notices
- Review of the premium formula and other documentation supporting icare's premium framework
- Analysis of premium rate experience for experience rated policies under the new premium formula, including premium rate changes over time

Further details of our approach to this review are set out below.

2.3.1 Analysis of charged premium compared with calculated premium

Each record in the policy CDR contains the underlying parameters derived for use in calculating the experience rated premium by icare's premium formula, as well as the final premium charged to the policyholder. We have utilised these parameters to calculate the premium that we expect would have been charged to the policyholder under the formula and compared this with the premium recorded as having been charged to the policyholder for the 2018/19 policy year.

The results of this analysis are summarised in section 3.2 and demonstrate the extent of the differences between charged and calculated premiums.

As part of the analysis above, we also assessed:

- The proportion of policyholders renewing in 2018/19 where it would appear that the 30% cap imposed by the MPPGs has not been applied
- The proportion of policyholders in renewing in 2018/19 where it would appear that the 30% floor imposed by icare's rate filing has not been applied.

The group of policies identified in this analysis form the basis from which the policy files to be reviewed were sampled from, however with a focus on policies with larger deviations from the calculated premium, i.e. greater than 20% difference – this equated to approximately 900 policies (see Table 2).

The rationale for "discounts" or "loadings" applied to a policy's expected premium or if these adjustments were compliant with the MPPGs was investigated further in the policy file review (see sections 2.3.2 and 4).

2.3.2 Policy file review

The policy file review was focused on understanding icare's policies and processes and compliance with the MPPGs in respect of:

- Capping and flooring
- Adjustment of premiums (i.e. "discounting" or "loading") from the premium formula calculation and
- Timeliness of renewals.

The policy file review was conducted on a random sample from the approximately 900 2018/19 policies which have been charged a premium that is different to their calculated premium by greater than 20%. That is, where a greater than 20% "loading" or "discount" appeared to have been applied to the premium calculated from icare's premium formula, including policies where capping or flooring appeared to have not been applied and the difference to the capped/floored premium was greater than 20%.

The file review was conducted by reviewers from EY and SIRA, and involved:

- Developing a consistent set of evaluation criteria to assess the policy files against, which was informed by the results of the premium analyses (section 2.3.1)
- Reviewing the sample of policy files based on this evaluation criteria and recording the findings
- Consulting with an assigned icare contact person as needed to clarify relevant matters for each file
- Consolidating the individual review findings and discussing the main issues emerging with icare
- Documenting the detailed review for each policy file.

We were given access to a number of systems including Guidewire (policy and billing), CRM (which contained documentation of some customer interaction) and OnBase (which contained policy documentation and customer documentation).

The review assessed 38 policy files were reviewed, including 3 under the Authorised Provider Pilot (policies managed by Allianz), with queries addressed by icare including further discussions. We have not reviewed any LPR policy files.

2.3.3 Review of the experience rated premium formula and experience

EY's understanding of the premium formula is based on reviews of the following:

- 2015/16 IPO premium formula and parameters
- 2016/17 to 2018/19 icare premium rate filings

EY reviewed documentation provided by icare in relation to icare's premium system. The results of these desktop reviews have informed our views as to the premium and policy related issues existing within the NI's premium system.

In addition, we have conducted a quantitative analysis of the premium rate experience of experience rated customers for the 18/19 policy year against previous years to demonstrate the impacts of icare's premium formula on policyholders.

This included analysis of:

- the extent and level of premium rate changes experienced by policyholders renewing in the 2017/18 and 2018/19 policy years
- the extent and level of premium rate changes experienced by policyholders on the icare formula compared with the previous IPO premium formula (i.e. applying to policies prior to the 2015/16 policy year).

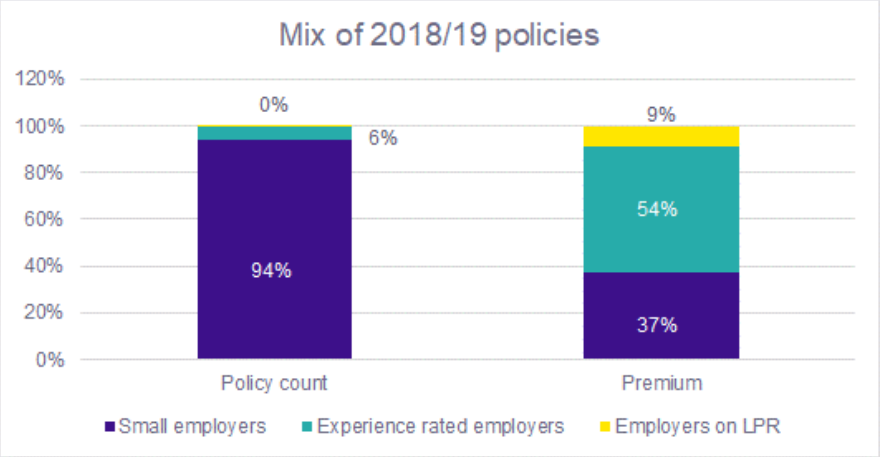
2.4 Data

The full list of data and documents used for this review is included as Appendix B.

For the quantitative analyses, CDR policy data as at 31 March 2019 was used. We therefore do not have a full year of policy information for the 2018/19 policy year.,

The analyses in this report have focused on experience rated policies. We note that although these policies represent just over 5% of 2018/19 policies, experience rated policies make up almost 55% of total premium. This is demonstrated in the graph below.

Figure 3: Breakdown of 2018/19 policy year by product



3. Analysis of charged premium compared with calculated premium

3.1 Key findings

Our key findings with respect to the analysis of charged premium compared with calculated premium are:

- It appears that icare has charged a different premium to the premium formula calculation for approximately 10% of the reviewed experience rated policyholders renewing in 2018/19 (to March 19)
- 2.4% of 2018/19 renewing policies appear to have been charged more than 30% above their 2017/18 rate, which is in breach of the MPPGs
- 3.1% of 2018/19 renewing policies appear to have been charged more than 30% below their 2017/18 rate, which is in breach of icare's rate filing

3.2 Indicative "discounts" / "loadings"

To assess the extent of differences in charged premiums to the premiums calculated by the formula, i.e. possible "discounts" and "loadings" given by icare to policyholders, we have analysed 2018/19 policy data from the CDR for experience rated policies to compare:

Expected policyholder premium based on the underlying premium components as recorded on the CDR (allowing for expected capping or flooring)

to

Actual premium charged to the policyholder as recorded on the CDR

This analysis does not identify the rationale for premium adjustments or if the adjustments were compliant with the MPPGs. This was investigated further in the policy file review (see section 4).

Table 2: Analysis of differences between charged premium and premium formula for 2018/19 (to March 2019) experience rated policies

Adjustment to calculated premium	All policies (number)	All policies (%)	$1m+ BTP (number)	$1m+ BTP (%)	<$300k BTP (number)	<$300k BTP (%)
20%+ discount	568	3.4%	24	5.8%	481	3.3%
10%-20% discount	210	1.2%	3	0.7%	174	1.2%
1%-10% discount	227	1.3%	12	2.9%	164	1.1%
Same (± 1%)	15,173	89.6%	356	85.4%	13,098	90.0%
1%-10% loading	331	2.0%	14	3.4%	269	1.8%
10%-20% loading	82	0.5%	2	0.5%	67	0.5%
20%+ loading	335	2.0%	6	1.4%	300	2.1%
Total	16,926	100.0%	417	100.0%	14,553	100.0%

The analysis above indicates that:

- 90% of all policies were charged a premium based on the formula (or at least within plus or minus 1%). This reduces to 85.4% for large polices

- Of almost 17,000 experience rated policies written in 2018/19 (to March 19), approximately 1,000 or 5.9% appear to have received a "discount" of greater than 1% (3.4% + 1.2% + 1.3% in table above), i.e. have been charged a lower amount than the premium derived from the premium formula
  - 3.4% of all policies appear to have been charged a premium that is over 20% lower than the premium formula; for large policies (over $1m basic tariff premium or BTP), this increases to 5.8%
  - 9.4% of large policies (over $1m BTP) appear to have received a "discount" of greater than 1% (5.8% + 0.7% + 2.9% in table above), compared with 5.6% of policies below $300k BTP (3.3% + 1.2% + 1.1% in table above)
- Approximately 750 policies, or 4.5% of total policies (2.0% + 0.5% + 2.0% in the table above), appear to have received a "loading" of greater than 1%, i.e. have been charged a higher amount than the premium derived from the formula (i.e. received a loading)
  - 2.0% of all policies appear have been charged a premium that is over 20% higher than the premium formula, however this decreases to 1.4% for large policies (over $1m BTP)
  - 5.3% of large policies (over $1m BTP) appear to have received a "loading" of greater than 1% (3.4% + 0.5% + 1.4% in the table above), compared with 4.4% of policies below $300k BTP (1.8% + 0.5% + 2.1% in the table above).

3.3 Capping and flooring

Consistent with the MPPGs, icare's 2018/19 premium rate filing specifies that policyholder premium rates will not be increased by greater than 30% relative to their 2017/18 premium rate. Additionally, the rate filing specifies that policyholder premium rates will not be decreased by greater than 30% relative to their 2017/18 premium rate. This is not a requirement of the MPPGs. It was implemented by icare in order to mitigate premium lost by the requirement for the 30% cap.

It should be noted that it is the experience premium component of the premium rate that is capped at a 30% increase, before the premium rate is adjusted for any other premium elements (e.g. employer safety incentive, mine levy, dust diseases levy and apprentice discount).

To assess compliance with the MPPGs and icare's rate filings, we determined:

- The proportion of policyholders in 2018/19 where it would appear that the 30% cap imposed by the MPPGs has not been applied
- The proportion of policyholders in 2018/19 where it would appear that the 30% floor imposed by icare's rate filing has not been applied.

We have analysed the increase / decrease in experience premium rate for each 2018/19 policy relative to the policy's 2017/18 experience premium rate. This is based on data available in the Policy CDR.

The following table sets out the results of this analysis, showing the experience of capping and flooring for 2018/19 policies (to Mar 2019), where the policies were experience rated in 2017/18. Note that this analysis is a subset of the policies identified in section 3.2.

The analysis does not exclude the small number of policies impacted by changes in WIC between policy years or apprentice levy changes in this analysis. We have also not identified where the premium rate increase may be due to incorrect claims cost values.

Table 3: Analysis of capping and flooring of 2018/19 policies (to Mar 2019)

Experience premium rate - capping and flooring		
Policies with > 30% increase in experience premium rate	1,638	9.7%
- Policies that were capped at 30%	1,083	6.4%
- Policies charged more than 30% above 17/18	413	2.4%
- Policies charged less than 30% above 17/18	142	0.8%
Policies with > 30% decrease in experience premium rate	887	5.2%
- Policies that were floored at 30%	319	1.9%
- Policies charged more than 30% below 17/18	524	3.1%
- Policies charged less than 30% below 17/18	44	0.3%

Analysis of the data indicated that 2018/19 premium rate calculated by the premium formula was over 30% higher than the 2017/18 premium rate for 1,638 policies (9.7% of the total). Of these policies:

- 6.4% of policies appear to have been correctly capped at a 30% increase
- 0.8% of policies appear to have received a less than 30% increase, i.e. received a discount
- 2.4% of policies appear to have been charged more than 30% above the 2017/18 rate, i.e. received a loading, which is in breach of the MPPGs.

Analysis of the data indicated that 2018/19 premium rate calculated by the premium formula was over 30% lower than the 2017/18 premium rate for 887 policies (5.2% of the total). Of these policies:

- 1.9% of policies appear to have been correctly floored at a 30% decrease
- 0.3% of policies appear to have received a less than 30% decrease, i.e. received a loading
- 3.1% of policies appear to have been charged more than 30% below the 2017/18 rate, i.e. received a discount, which is in breach of icare's rate filing.

In summary, 8.3% (6.4% + 1.9%) out of the total of 14.9% of policies were correctly capped or floored where their calculated premium was over 30% higher or 30% lower. i.e. 55% of the relevant policies were correctly capped/floored.

4. Policy file review results

4.1 Key findings

Our key findings from the policy file review are:

- The key reasons identified for where it appears that icare has charged a different premium to the premium formula calculation include:
  - Incorrect claims costs (C values). The process for determining claims costs for inclusion in the premium formula appears to have a number of flaws, including lack of integration of policy and claims systems, inability for the system to allow correction when errors are identified, and lack of a governance process to ensure accuracy of claims costs. In most cases these issues have only been identified by the customer, broker or the underwriter.
  - Incorrect capping or flooring
  - In some cases, icare has reviewed a policy's premium and provided a discount to the policyholder. icare have informed us that this may occur as a result of an employer lodging a premium appeal
- Based on the files reviewed and the supporting evidence provided, the process followed by icare for determining a premium discount does not appear unreasonable
- We identified a number of files in the policy file review that should have been capped or floored. icare acknowledged the error for these cases, however cited that the limited timeframe between receiving the approved MPPGs and preparing icare's premium filing meant the capping/flooring process was unable to be automated in Guidewire Policy Center. A manual process was therefore required.

  It would appear that not all cases that required capping or flooring were identified. System enhancements are expected to correct this situation, and we understand that these were implemented in July 2019; it is unclear of the impact on June 2019 renewals
- Timeliness of renewal notices and premium confirmation was generally not compliant with the requirements of the MPPGs for the 2018/19 policy year.

4.2 "Discounts" / "loadings"

4.2.1 Background to the review

At the commencement of the NI review it was our understanding from feedback provided to SIRA that icare offered some policyholders "discounts" on the premiums that should be charged based on application of the premium formula. As discussed in section 3.2, our analysis of the premium data supports the view that approximately 5.9% of policyholders appear to have been charged a lower amount than the premium derived from the formula (i.e. received a discount). It appears that 4.5% of total policies have been charged a higher amount than the premium derived from the formula (i.e. received a loading).

The results of the policy file review provided information with respect to icare's approach to adjusting premiums. Subsequent to the file review, icare provided additional commentary on aspects of compliance with the MPPGs.

4.2.2 Results from the policy file review

We examined a number of files in the policy file review where it appeared that a discount or loading had been applied. It was generally unclear from the system information that we had access to as to the reasons for any discounts or loadings. We sought and received further information from icare, such as premium calculations and certain correspondence.

The additional information and discussions with icare indicated a number of reasons why the premium charged may not match the premium formula elements derived in Guidewire based on the data available for each policy:

- icare identified that the claims costs (C values) provided by the claims agent and recorded on the CDR for some policies were incorrect. The premium calculation was manually adjusted in a separate premium calculator spreadsheet with information sourced from separate claim reports. This is discussed in section 4.2.3
- Underwriter judgement was applied to provide the policyholder with a discount where requested – this is discussed in section 4.2.4
- There were errors in the calculated premium where a key variable (CPA) was incorrectly determined for policies at the maximum CPR band, where an additional level has now been introduced
- In some cases where the policies appear to be loaded, this related to incorrect capping. Similarly, in some cases where the policies appear to be discounted, this related to incorrect flooring. Capping and flooring is discussed further in section 4.3.

The following two sections contain further discussion on data issues and premium discounts/loadings.

4.2.3 Additional comments on claims data issues from the file review

It appears that there are a number of policies with errors in the C values used in the premium calculation. icare indicated that this was due to less than perfect claims information being provided by claims agents. Claims agents provide the C values, which are not checked by icare, in a “csv” file format, and this data is automatically uploaded to the policy CDR. Once captured within the CDR, a system limitation prevents any correction of the data. Note, the policy CDR and claims CDR are not interactive, and C values are not derived from the claims CDR. It is unclear why there are errors in the C values provided by claims agents.

icare modifies C values for premium purposes when it is identified they are incorrect by overwriting the figures manually in a separate premium calculator spreadsheet that is used to derive premiums. Issues are generally only identified from customer input or underwriter knowledge. Correct data is taken from separate cost of claims reports available at an employer level.

There may therefore be other cases where the C values and consequently the premiums are incorrect. icare indicated that upcoming system improvements are expected to allow rectification of incorrect data in the policy CDR. In addition, icare will implement a greater level of checking of scheme agent files against cost of claims reports.

We observe that the current process to obtain accurate C values for each policy results in a not infrequent requirement for additional manual intervention. The lack of integration of Policy and Claims Guidewire appears to limit icare’s ability to correctly set premiums. We were not provided with any evidence of a governance process around ensuring C values are accurate.

4.2.4 Additional comments on premium discounts from the file review

We understand from icare that a reduced premium may be offered to a policyholder following an employer appeal. icare advised that a number of factors are considered before granting such a discount. These include:

- Evidence provided by the customer in relation to the work they have done to improve processes around:
  - Injury prevention
  - Risk mitigation
  - Early intervention and RTW
- Information from site visits or detailed conversations to:
  - Understand the business
  - Confirm the stated improvements
- Circumstances of a particular claim that is significantly impacting the premium – a claim review would be conducted by icare's Complex Case Management Team and such a claim might be removed from the C values for premium calculation purposes
- A 5-year review of claims including:
  - Trends
  - Individual claims
  - Detailed conversations around performance

Following assessment of the factors above that are relevant to a particular policy, icare makes a determination as to whether the C values for the employer are reasonable. This may result in a smoothing of C values or possibly removal of some claims from inclusion in the C values for premium purposes. Utilising the revised C values in the premium formula results in a discount to the original calculated premium.

We were advised that the process to approve a premium adjustment involves an initial discussion between the underwriter and underwriting manager to review the rationale and supporting information (this may include a brief prepared by the underwriter). Should this not resolve the request, the matter would be escalated to the Customer Resolution Team, a group of experienced underwriters. If required, further escalation for approval is to the responsible General Manager. We observed one such case in the policy file review.

In general, for the policy files reviewed with respect to premium adjustments, 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. Note we did not consider the timeliness of the overall process, nor did we consider the appropriateness of the actual judgements made to derive the final premium charged to the policyholder.

Premium discounts are tracked on a spreadsheet which we understand has been provided to SIRA; it is intended to be provided in future on a monthly basis.

4.2.5 Feedback from icare on premium adjustments

icare has indicated that all adjustments to premiums are as a result of employer premium appeals. icare does outline a Customer Resolution Management Framework within its annual premium filing. This is a requirement of section 8.5 of the MPPGs (Employer premium review process). SIRA points out that section 7.4.1 of the MPPG requires premiums be specified with "all discretionary elements described with well-defined objective triggers and actions". Given that section 7.4.1 of the MPPG had not been specifically addressed in icare's premium filing, SIRA had assumed that premium adjustments such as those found during this review were not being applied.

We suggest that future filings contain the detail and governance around the employer premium review process that has been explained to EY by icare during this review.

We also understand that icare has recently commenced supplying SIRA with a quarterly summary of premium appeals and outcomes as is required by the MPPGs. This provision of information should increase the transparency around the employer appeals process for SIRA.

4.3 Capping and flooring

Of the 38 policy files reviewed, 13 (or 34%) did not appear to have capping or flooring applied appropriately for the 2018/19 policy year. icare acknowledged that capping or flooring should have been applied for these cases. In doing so, icare noted that there was a limited timeframe between receiving the approved MPPGs and preparing icare's premium filing that meant the capping process was unable to be automated in Guidewire Policy Center. A manual process was therefore required.

We understand that icare maintained a list of policies that required capping in a spreadsheet. For those policies, a manual block was put in place to prevent auto renewal. The premium was then calculated outside of Guidewire in the premium calculator spreadsheet. A manual adjustment was then made to the premium estimated in Guidewire.

In some cases, icare identified that a premium rate increase had not been capped. We understand that icare communicated with the customer and either agreed to adjust the premium or fix the premium within the hindsight adjustment. However, we have not been provided evidence for every case.

Not all cases where policies should have been capped or floored were identified, as evident from the policy file review. Therefore, premium rates have been charged to policyholders that were either not compliant with the MPPGs (which required capping) or icare's own stated premium filing (which additionally required flooring). This is reflective of delays to implementing the required system processes, requiring a manual process, as well as system limitations which, regardless of the delays, do not currently allow icare to be able to automatically apply caps and floors.

icare has indicated that system enhancements would be implemented in July to September 2019. It is unclear if these enhancements would be in place for 2019/20 renewals, particular those renewing on 30 June 2019.

Further clarification has been sought by SIRA from icare with respect to:

- whether icare has identified all premiums which were not capped in the 2018/19 premium renewal year and what the identification process was
- what was icare's process when a premium which was not capped (missed by manual process) was identified and what the rectification and communication process was
- whether the automatic capping (system fix), which we understand was implemented in July 2019, has allowed for the correct capping of 30 June 2019 renewals.

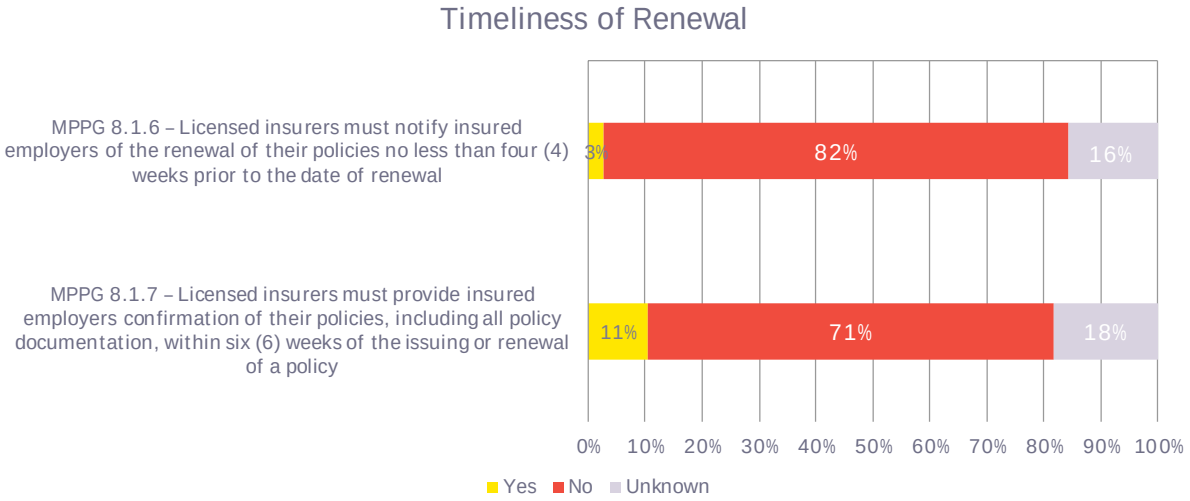
4.4 Timeliness

The MPPGs have specified two timeframes with regards to policy renewals[2], which were assessed as part of the policy file review:

- Licensed insurers must notify insured employers of the renewal of their policies no less than four (4) weeks prior to the date of renewal (clause 8.1.6)
- Licensed insurers must provide insured employers confirmation of their policies, including all policy documentation, within six (6) weeks of the issuing or renewal of a policy (clause 8.1.7).

We were able to access information related to these criteria from icare's OnBase system, which stores premium notices. Only 1 policy appeared to have a renewal notice issued at least 4 weeks prior to the policy commencement date. Only 4 policies appeared to have renewal confirmations sent within 6 weeks from the commencement date. This is demonstrated in the figure below.

Figure 4: Timeliness of issuing renewal and policy documents



The timeliness of renewal notices and policy confirmation for these files does not appear to be compliant with the MPPGs.

4.5 Additional comments on documentation

We observed through the policy file review that icare's current premium documentation (i.e. premium notices) is not flexible enough to indicate any adjustments that are made to a policyholder's premium relative to the premium that would apply under the premium formula. This means that some policyholders may have limited understanding as to their premium determination unless they have initiated formal discussions with icare.

icare has indicated that premium documentation will be enhanced to show capped premiums or other adjustments. The ability to override C values will allow icare to fix the C values if they are incorrect on hindsight premium notices.

In the policy file review, it was identified that there is significant internal documentation retained by icare in cases where there is more complexity. However, this appears to be stored across a range of systems, with the majority of relevant information kept in secured folders with access limited to key personnel.

[2] Workers compensation market practice and premiums guidelines - For premium filings on or after 1 March 2018, section 8.1.6 and 8.1.7

5. Experience rated premium rate formula and experience

5.1 Key findings

We have the following key observations in relation to premium rate changes for experience rated policyholders:

- The new premium formula introduced different mechanics, which appear to more heavily penalise claims experience relative to the previous formula. A higher proportion of policyholders have received premium increases compared with under the previous premium formula
- It is clear that small changes in claims cost can result in large changes in premium rate, even for policyholders with relatively good claims experience
- 23% of policies experienced premium rate increases of more than 30% in at least one of the last two years, compared with 11% of policies that experienced premium rate decreases of more than 30% in at least one of the last two years.

5.2 Review of the premium formula

The direction and level of premium rate changes, including large increases being experienced by policyholders, has been an issue in the scheme since 2015/16. We consider that the following elements of the premium formula can lead to significant premium rate changes:

- The type of reported claims costs included in the calculation of a policyholder's own claims performance (Claims Performance Measure or CPM)
    - Small changes in claim costs can result in large impacts on the premium – this is influenced by the nature of claim cost included in the formula. Only weekly payments are included for up to the first 3 years of a claim's payments. This amounts to only between 5% to 10% of total claims costs for that period
    - A larger claim can have a significant effect on the premium from the impact of application of the scheme performance measure within the formula, which grosses up the reported claims experience by a single factor of around 25 (the previous formula applied different factors by year)
- The approach to deriving the experience premium for a policyholder, through application of a Claim Performance Adjustment (CPA) factor (this is a second order effect)
    - The way the CPA factors change between different Claim Performance Rate (CPR) levels and premium size bands can lead to significant premium rate changes – the CPR is the relativity of each policyholder's claim performance to overall scheme performance (Scheme Performance Measure)
    - Discontinuities in the CPA factors between CPR bands combined with claims cost changes which impact a policyholder's CPR can result in a significant impact on premium

Some actions were taken to limit significant premium rate changes for the 2018/19 policy year, including:

- Introduction by SIRA in the MPPGs of a 30% cap to premium rate increases for 2018/19
- Introduction by icare of a 30% floor to premium rate decreases for 2018/19
- Modification by icare of the CPA factors to apply for 2018/19
- Removal of some lump sum payments from the definition of claims costs

Premium rates for experience rated policyholders in the NI scheme are analysed below.

5.3 Analysis of premium rate experience

To assess the impact of icare's premium formula on experience rated policyholder experience, we have analysed 2018/19 policy data from the CDR for experience rated policies. This includes analysis of:

- Premium rate changes experienced by policyholders for 2017/18 and 2018/19 renewals compared with changes in the policyholders' claims costs (CPM changes) for those policies at renewal
- Premium rate changes experienced by policyholders for 2017/18 and 2018/19 renewals, for policyholders with active policies in each of the three years to 2018/19
- Premium rate changes experienced by policyholders renewing in 2013/14 to 2018/19, for policyholders with active policies across each of those six years – this is to demonstrate the differences in the extent and level of premium rate changes experienced by policyholders before and after the implementation of the new premium formula and parameters.

To assess the impact of changes in claims cost on premium rates under icare's premium formula, the following figure compares the percentage change in premium rate on renewal for policies renewing in the 2017/18 and 2018/19 policy years against the raw change in claims performance measure[3] (CPM) for policies renewing for those periods. We have shown the experience for each year separately, to demonstrate the change introduced by capping for 2018/19 renewals. Capping and flooring did not apply to policies in the 2017/18 policy year.

Each point has been colour-coded to represent the policy's "risk level" at that point in time, as indicated by the policy's claims performance rate[4] (CPR). The colour coding in the graph starts at green to yellow for CPR levels below 100% (i.e. better experience than scheme average) and moves to red for CPR levels up to 300% (i.e. up to 3 times worse experience than scheme average). The size of the dot represents the size of the employer's basic tariff premium band, i.e. larger dots are large size bands.

Note that we have not excluded the impact on premium rates of changes in an employer's WIC over the year or the impact of other factors on premium rates, as this only impacts a small number of policies. We do not expect this to alter the conclusions of our analysis.

[3] Claims performance measure for a policy is equivalent to the policy's claims costs (for specified payment types) over the previous 3 years divided by the sum of the policy's basic tariff premiums (industry tariff rate applied to wages) over the previous 3 years

[4] Claims performance rate for a policy is equivalent to the policy's claims performance measure divided by the scheme performance measure (SPM). The SPM represents the overall scheme's claims performance measure. The CPR represents the relativity of the individual policy's claims performance to the scheme's claim performance. Below 100% indicates better than scheme performance, above 100% indicates worse than scheme performance.

Figure 5: Change in premium rate compared with change in claims performance measure for the 2017/18 renewal year (no capping or flooring apply)

The area within the blue circle has been highlighted as it demonstrates that for a significant proportion of 2017/18 policies on renewal under icare's premium formula, small changes in claims cost (x axis) have led to large changes in premium rate (y axis). This occurs even for policyholders with good experience as measured by a CPR below 100% (green points) i.e. there are a number of green points with better experience than the scheme and which have a low CPM change but a high premium rate change.

Figure 6: Change in premium rate compared with change in claims performance measure for the 2018/19 renewal year (capping and flooring apply at 30%)

The experience for 2018/19 renewals demonstrates the impact of 30% capping and flooring, with a concentration of increases and decreases at 30% and fewer policies exceeding a 30% change in premium rate. However, the graph demonstrates that some policies have received rate increases greater than 30%.

The following table and graph show changes in premium rates for experience rated policies renewing in the 2017/18 and 2018/19 policy years (this includes only policies that are experience from 2016/17 to 2018/19). Changes above and below a threshold of a 30% change in premium rate relative to the previous year are separated out. The analysis excludes the impact on premium rates for employers that have changed WIC relative to the previous year, a change in apprentice levy or in performance discount.

Table 4: Premium rate changes for policies renewing in 2017/18 and 2018/19

Premium movement	Num. of policies	% of policies
Premium rate has moved in opposite directions at more than 30.0% in the last 2 years (yellow)	549	4%
Successive premium rate increases of more than 30.0% in the last 2 years (red)	304	2%
More than 30.0% increase in one of the last two years (blue)	2,563	21%
Successive premium rate decreases of more than 30.0% in the last 2 years (orange)	35	0%
More than 30.0% decrease in one of the last two years (purple)	1,291	10%
Did not move more than 30.0% over the last two years (green)[1]	7,710	62%
Total[2]	**12,452**	**100%**

[1] For 18/19, this will included policies capped at 30% and floored at 30%

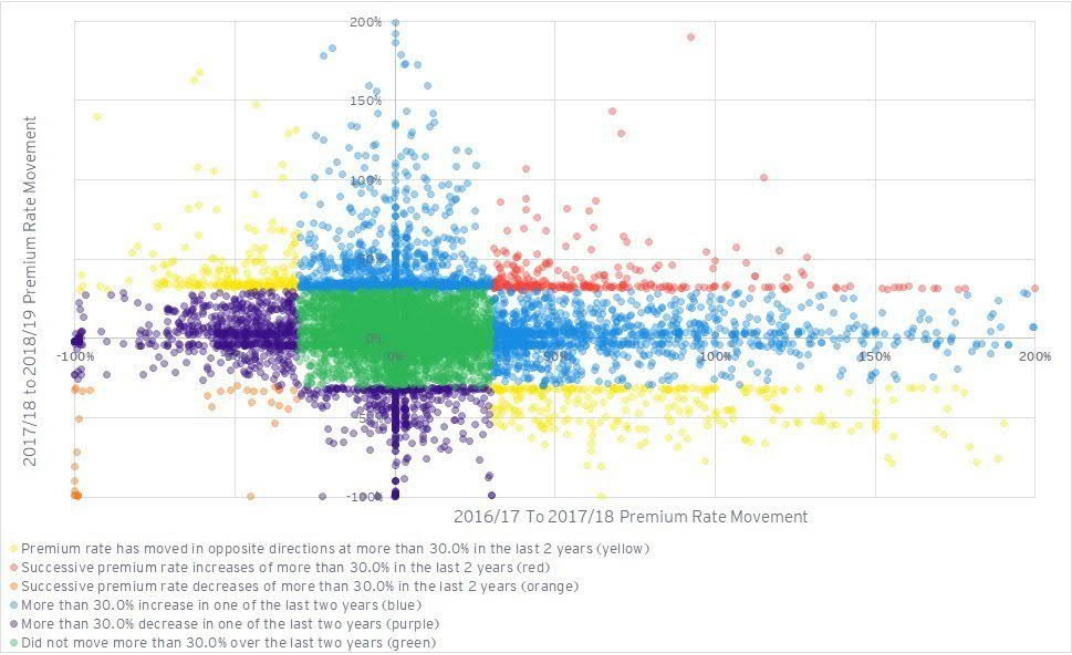
[2] Only including policies that are experience rated for the last 3 consecutive years

Key observations from this analysis are:

- 23% of policies experienced premium rate increases of more than 30% in at least one of the last two years (red + blue points in graph below)
- This compares to 10% of policies that experienced premium rate decreases of more than 30% in at least one of the last two years (purple points in graph below)
- 4% of policies experienced premium rate changes in opposite directions of over 30% (yellow).

The experience is also shown in the graph below.

Figure 7: Premium rate changes for policies renewing in 2017/18 and 2018/19

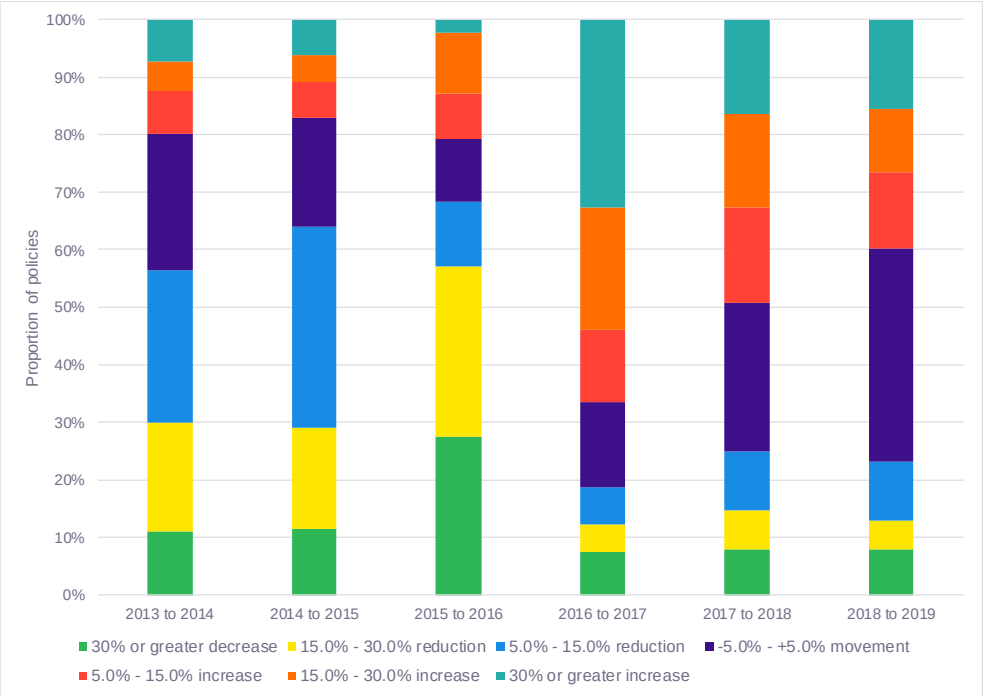


Note that a premium change of -100% indicates where a premium has reduced to the $175 minimum.

The graph demonstrates the significant spread of premium rate changes experienced by 2017/18 policyholders relative to their 2016/17 premium rates, before the 30% cap and floor were introduced and CPA factors were adjusted.

We have also analysed the experience for policies in force between 2012/13 and 2018/19. Note that we have not excluded the impact on premium rates of changes in an employer's WIC relative to the previous year or the impact of other factors on premium rates. Our analysis indicates that this affects an immaterial number of policies. We do not expect this to alter the conclusions of our analysis.

Figure 8: Premium rate changes between 2013/14 and 2018/19



Key observations from this analysis are:

- For policies renewing between 2013/14 and 2015/16, the majority of policyholders received only small changes (up to 5% increase) or decreases in premium rates (around 80%); note that 2015/16 was a transition year for the new premium formula
- In the 2016/17 policy year, the experience is significantly different, with the majority of policyholders receiving premium rate increases that year
    - 54% of policyholders received increases of 15% or more
    - 33% of policyholders received increases of 30% or more
- For the 2017/18 policy year, the impact is lower than the previous year, however 33% of policyholders received increases of 15% or more, and 17% received an increase of 30% or more
- For 2018/19, while there is a larger proportion of policies that have received less than a 5% premium rate increase or decrease compared with previous years, the proportion of policies that received a 30% or greater increase (top bar in the graph, which includes those receiving a capped 30% increase) is similar to 2017/18, despite the implementation of the 30% cap

6. Reliances and Limitations

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

The scope of EY's services for this review is contained in a letter to Mr Darren Parker dated 16 May 2019. The letter sets out the terms of the engagement of Ernst & Young (EY, we) by the State Insurance Regulatory Authority (SIRA) to provide the services specified in the Scope section of that letter. The terms and conditions covering this engagement are as set out in Contract Agreement SIRA//6358/2016 between EY and SIRA commencing on 20 April 2017.

Our Report may be relied upon by SIRA for the purpose of the agreed scope only pursuant to the terms of our Contract Agreement SIRA//6358/2016 between EY and SIRA commencing on 20 April 2017. We disclaim all responsibility to any other party for all costs, loss, damage and liability that any third party may suffer or incur arising from or relating to or in any way connected with the contents of our Report, the provision of our Report to the other party or the reliance upon our Report by the other party. We are providing specific advice only for this engagement and for no other purpose and we disclaim any responsibility for the use of our advice for a different purpose or in a different context.

EY has acted in accordance with the instructions of SIRA in conducting its work and preparing the Report and, in doing so, has prepared the Report for the benefit of SIRA, and has considered only the interests of SIRA. The Report does not seek to address the specific circumstances of any other party, and EY makes no representations as to the appropriateness, accuracy or completeness of the Report for any other party's purposes. EY is under no obligation to provide any other party with any additional information or to update any of the information contained in the Report.

The conduct of this Review has been dependent on the provision of information, including documentation and consultations with relevant stakeholders. The data received and relied upon for this review is outlined in Appendix B. In undertaking this review, reliance has been placed upon information supplied in the consultations and documentation, and has been used without independent verification.

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

Appendix A Terms of Reference

The complete terms of reference can be found at:

https://www.sira.nsw.gov.au/fraud-and-regulation/review-of-the-nominal-insurer/terms-of-reference-for-the-review-of-the-nominal-insurer

In summary, the terms of reference state:

Over 2018, SIRA has closely monitored and considered analysis of aspects of the compliance and performance of the NI scheme, including trends in liability valuations and costs, premium setting, operational reforms and risk management, return to work rates, data quality, customer complaints and concerns raised by business representatives, unions and other stakeholders.

In February 2019, SIRA will commence an integrated compliance audit and performance review including:

- an audit of compliance with relevant guidelines including the Market Practice and Premiums Guidelines (MPPGs) and
- a performance review in relation to claims management, return to work outcomes and other objectives and requirements under the legislation.

In establishing this Review, SIRA is exercising its authority and undertaking responsibilities under the State Insurance and Care Governance Act 2015, the Workplace Injury Management and Workers Compensation Act 1998 and the Workers Compensation Act 1987.

The Review is established, in particular, under the following legislative provisions:

- Sections 23 and 24 of the State Insurance and Care Governance Act 2015
- Sections 22 and 23 of the Workplace Injury Management and Workers Compensation Act 1998

This Independent Compliance and Performance Review is imperative given the materiality of the NI performance on the overall performance of the workers compensation system and SIRA's responsibilities as regulator of that system.

The review will be undertaken for SIRA by an independent expert, Ms Janet Dore and supported by independent actuaries Ernst and Young (EY) and authorised officers of SIRA.

Consistent with the objectives, functions, responsibilities and powers of SIRA under the State Insurance and Care Governance Act 2015, the WIM Act and the 1987 Act, the Terms of Reference for the review are to consult with stakeholders and undertake analysis of data to provide findings in relation to the NI's compliance and performance, in particular to:

- assess NI compliance with the MPPGs and identify any unintended consequences, risks and priorities for improvement in SIRA regulation of the premiums of the NI
- identify the benefits and risks to the performance of the NSW workers compensation system arising from icare's implementation changes to the NI operating model and supporting digital platforms
- assess the NI's performance in relation to return to work outcomes, claims management (including guidance, support and services for workers, employers and health service providers), customer experience and data quality and reporting.

The Independent Reviewer, Ms Dore, and EY will present on their independent findings to the SIRA Chief Executive and Board. The Independent Reviewer may also provide advice to SIRA on any other significant matters, emergent risks or opportunities detected during the review.

Appendix B Data

Document name
Market Practice and Premium Guidelines applying from 2018
Insurance Premiums Order 2015/16
icare premium filings – various
Policy CDR as at 31 March 2019
Data supplied by icare through the policy file review, including - Communication with policyholders - Renewal documentation - Internal underwriter calculations - Internal underwriter communication

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