

NSW Motor Accidents CTP Scheme Quarterly Report

September 2016



State Insurance
Regulatory Authority

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Introduction and summary

The New South Wales Compulsory Third Party (CTP) Scheme is governed by the *Motor Accidents Compensation Act 1999* (Act). The Green Slip market currently comprises six licensed insurers operated by four entities: Suncorp (AAMI and GIO), Allianz Australia (Allianz and CIC Allianz), NRMA and QBE. The market is split into two segments: retail and non-retail. AAMI, GIO, Allianz and NRMA compete mainly in the retail segment, CIC Allianz competes in the non-retail commercial vehicle market and QBE operates in both market segments.

Under the Act, the State Insurance Regulatory Authority (SIRA) reports on premium market share to each insurer each quarter. SIRA also provides insurers with a detailed claims report and a price trend report each quarter. The claims report provides aggregate claims numbers and claims costs, illustrating the claims experience of the current scheme and the 'run-off' of the previous (pre-1999) scheme.

During the September 2016 quarter, four insurers implemented new prices with various effective dates to reflect deterioration in claims frequency, low government bond yields and changes to bonus and loading structure in some cases.

GIO continued to be the insurer with the best price by offering \$578 for a Sydney passenger vehicle. Despite NRMA's best price being \$33 above GIO, NRMA dominated the market with a share of around 30 per cent due to its brand impact, branch network and product bundling.

The price changes implemented during the September 2016 quarter resulted in an average premium of \$663 for Sydney passenger vehicles and an average premium of \$477 for regional passenger vehicles.

Five insurers filed for varying price increases during the reporting quarter to be effective during the December 2016 quarter. The price increases were generally due to:

- increases in claims frequency (the number of claims per 10,000 vehicles)
- changes to bonus and loading structure.

GIO will maintain its position as the market price leader for Sydney passenger vehicles by offering the lowest headline price (\$590), while CIC Allianz will be offering the highest best price (\$662) during the next quarter.

Price increases are in line with the upward trend in the frequency of claims evident since 2008 (Graph 5), however the claim frequency for the last three quarters to September 2016 appears stable.

Green Slip premiums and market trends

Insurer premium filings

Insurers set their own Green Slip premiums in a competitive market, within part 2.3 of the Act and the *Motor Accidents Premiums Determination Guidelines* approved by the SIRA Board. Insurers can file proposed premiums with SIRA at any time and there is no limit to the number of filings an insurer may lodge each year.

SIRA may only reject a premium filing if it is of the opinion that the premium:

- will not fully fund the present and likely future liability of the insurer
- is excessive having regard to actuarial advice and to other relevant financial information
- does not conform to the Motor Accidents Premiums Determination Guidelines (PDG).

The Scheme Actuary, Ernst and Young, and SIRA internal analysts review the assumptions underpinning each premium filing. The assumptions include projected industry and insurer's claims costs, economic factors, expenses, profit loading and insurer's forecast market share.

Adjustments to the Medical Care and Injury Services (MCIS) levy

The MCIS levy is made up of Motor Accidents Fund (MAF) levy and Lifetime Care and Support (LTCS) levy. SIRA Board is able to review and adjust the SIRA component of the MCIS Levy as required under s.213 and s.214 of the Act. SIRA sets the levy in order to generate a balanced budget outcome, while maintaining a preferred prudential reserve target.

The LTCS levy component could also be adjusted by the Insurance and Care NSW (icare) Board of Directors to meet the Board's target funding amount for a specified period. There were no changes to the MCIS levy rates during the September 2016 quarter.

Headline prices

Table 1 shows the changes in headline prices that occurred during this reporting quarter. The headline price is the lowest CTP premium price (including levies and GST) offered by each insurer to a new retail customer, aged 30 to 54, for a private use passenger vehicle garaged in Sydney.

GIO continued to offer the best market price for a Sydney passenger vehicle position during this reporting quarter. While the dominant premium market share insurer, NRMA, was \$33 higher than the market price leader, GIO.

Table 1: Sydney car headline price changes

Filing period	NRMA	GIO	AAMI	Allianz	QBE	CICA
December 2016 quarter* (\$)	624	590	603	628	611	662
September 2016 quarter (\$)	611	578	592	604	603	653
June 2016 quarter (\$)	588	555	572	604	587	653
December 2016 quarter* price change \$ (%)	13 (2.1)	12 (2.1)	11 (1.9)	24 (4.0)	8 (1.3)	9 (1.4)
September 2016 quarter price change \$ (%)	23 (3.9)	23 (4.1)	20 (3.5)	0 (0)	16 (2.7)	0 (0)

* Prices to come into effect in December 2016 quarter

Premium market share

Insurers are required under the Act to submit information on insurance premiums to SIRA at the end of each quarter. This information is used to determine the premium market share for each insurer and to report trends in premium levels over time.

The total amount of premiums collected (excluding MCIS levy and GST) during the year to 30 September 2016 was \$2.46 billion. This represented an increase of 10.8 per cent on the previous year (\$2.22 billion).

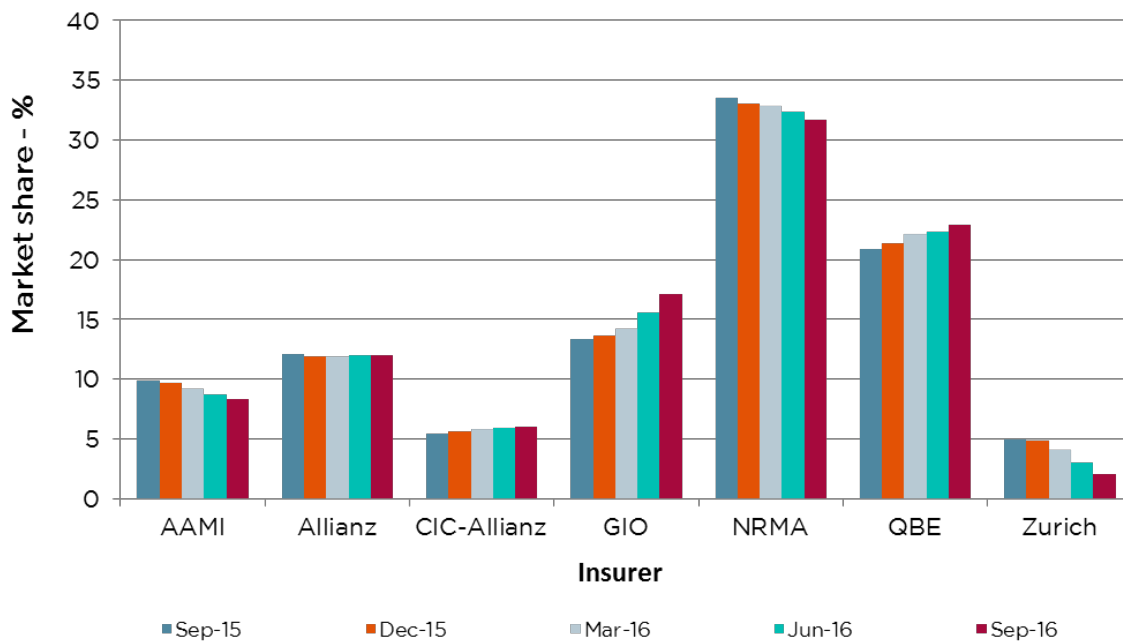
Table 2 shows NRMA continues to lose market share year-on-year, but still remains the dominant insurer in the market. Its premium market share at the end of this reporting quarter was 30.2 per cent, compared to 32.9 per cent the same period last year. GIO gained a significant 6.0 per cent market compared to September 2015 quarter.

QBE also gained 2.2 per cent market share compared to September 2015 quarter while NRMA and AAMI lost 2.7 and 1.9 per cent market share.

Table 2: Insurer market share in the NSW CTP scheme

Insurer	4 quarter average	Premium share for individual quarters (s.172)								
		Sep-16	Jun-16	Mar-16	Dec-15	Sep-15	Jun-15	Mar-15	Dec-14	Sep-14
%										
AAMI	8.3	8.2	8.8	8.5	7.6	10.1	10.6	10.4	8.6	7.9
Allianz	12.0	11.4	12.2	12.6	11.9	11.2	12.0	12.6	12.6	11.6
CIC-Allianz	6.0	6.6	5.7	5.8	6.0	6.1	5.2	5.1	5.2	4.9
GIO	17.3	20.1	18.8	15.4	14.0	14.1	13.2	13.3	12.5	13.3
NRMA	31.7	30.2	32.5	33.2	31.1	32.9	34.0	33.9	33.4	33.2
QBE	22.9	23.5	22.0	23.2	22.7	21.3	21.0	20.5	20.7	20.9
Zurich	1.8	0.0	0.0	1.3	6.7	4.2	4.1	4.3	7.1	8.1
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Graph 1: Market share (rolling 12 month) comparison



Graph 1 shows the proportion of premiums collected in the 12 months to the quarter end. Based on rolling twelve month periods this graph reduces any volatility that exists from quarter to quarter due to the seasonal renewal of large fleet vehicles and shows smoother trends in market share.

AAMI and NRMA market shares continue to decrease. While QBE, GIO and CIC Allianz continue to gain market shares in the last twelve months.

Upward pressure on premiums

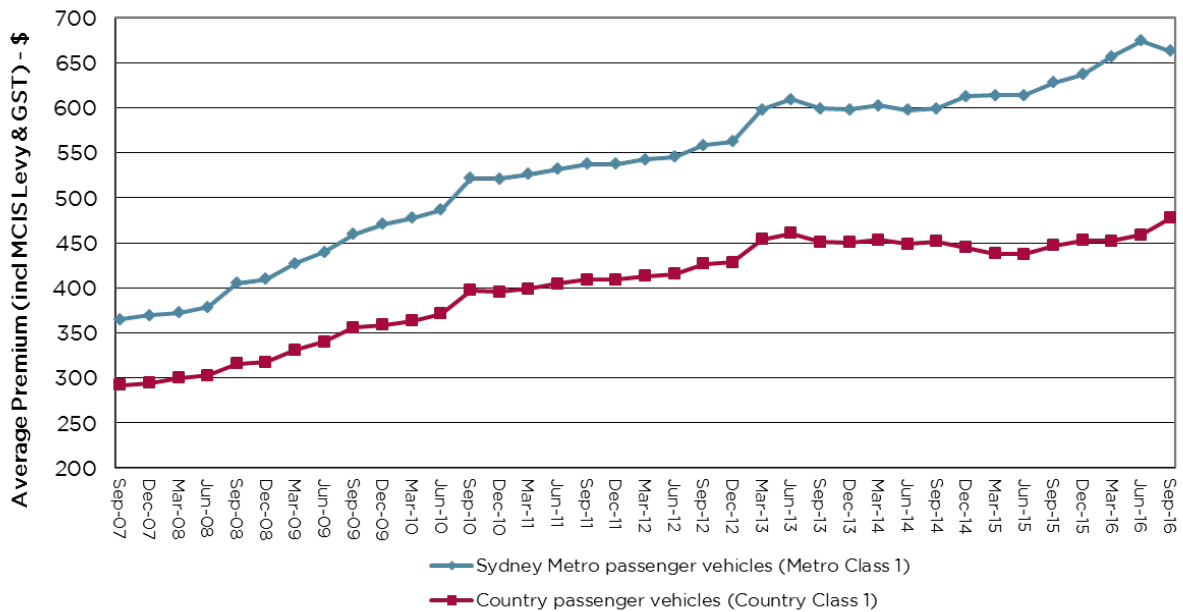
Since 2008, Green Slip premiums have generally continued to experience upward pressure (Graph 2).

Contributing factors are:

- increasing claims frequency
- a significant increase in both the number of small claim lodgements and the level of legal representation for small claims
- low bond yields, resulting in low investment returns for insurers (Graph 3)
- wage inflation.

While the increase in the number of small claims reduces the overall average claims cost, the increase in claims frequency means the overall effect is an increase in the cost per policy.

Graph 2: Average premium (quarterly trends)

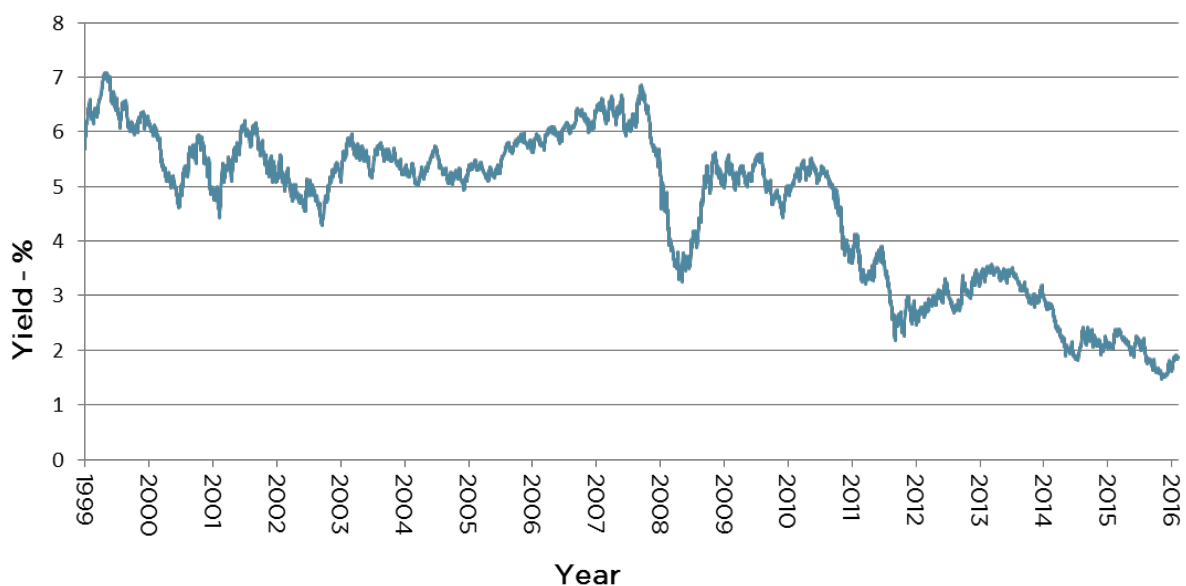


In the September 2016 quarter:

- The average premium (including MCIS levy and GST) paid by Sydney passenger vehicle owners was \$663, an annual increase of \$35 (5.6 per cent).
- The average premium paid by regional passenger vehicle owners was \$477, an annual increase of \$30 (6.7 per cent).

Premium prices are also affected by insurers’ investment returns. Graph 3 shows movements in the five-year Commonwealth Government bond yield since the inception of the current CTP Scheme 17 years ago.

Graph 3: Trend in five year Commonwealth Bond Yield to 2 August 2016



*Measured on 5 October each year

Low bond yields have a negative impact on the investment returns of insurers who invest collected premiums in the bond market. The yield on the five-year Commonwealth Government bond has been at historically low levels in recent years and material changes are not expected in the short term. Movements in five-year bond yields are generally consistent with movements in the yields of other maturities.

Claims trends

Number of claims

Newly reported claims

Claims trends are measured from 5 October 1999, when the current Act (MACA) came into effect. The scheme actuaries complete an annual valuation of the scheme in June each year to provide projections for the number of claims expected to be reported. In the September 2016 quarter, the actual number of newly reported claims since the previous quarter, June 2016, was 4,771 (2.6 per cent) more than 4,650 anticipated from the June 2016 valuation of the scheme. Some of these newly reported claims were lodged with respect to past accident quarters, however the overall rising trend in claims arising from accidents since March 2008 continues.

The number of claims reported from accidents in the latest accident quarter, September 2016, was 2,319, the highest number of claims reported in the first development quarter of any accident quarter since the current scheme began.

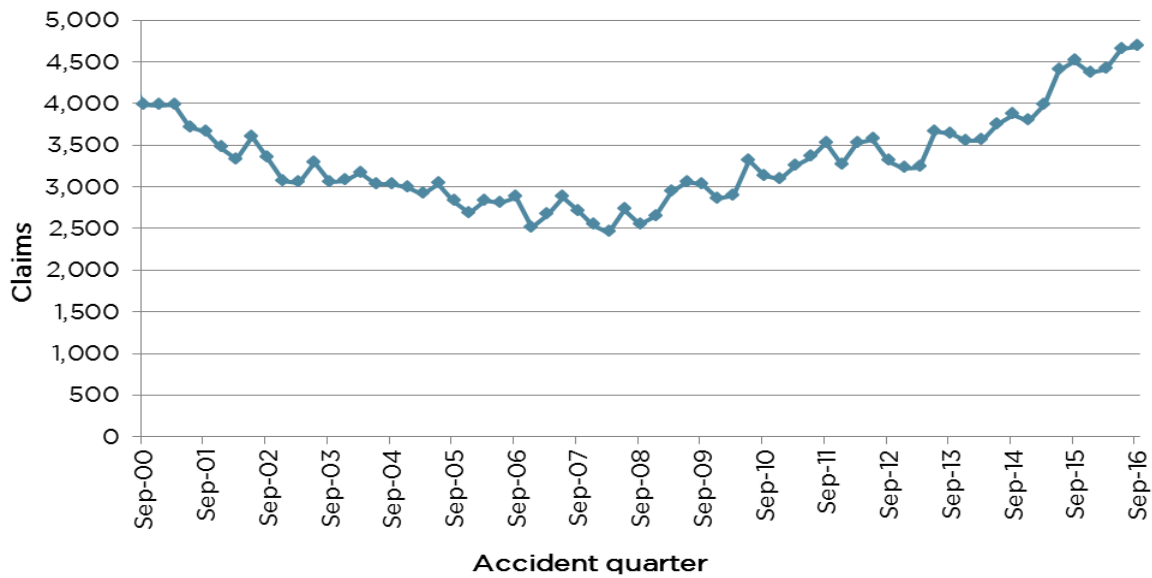
Claims by accident quarter

Graph 4 shows the number of CTP claims per accident quarter¹. Since March 2008 there has been a clear upward trend in the number of claims per accident from 2,451 in March 2008 to 4,683 in September 2016² (e.g. a growth rate of 1.6 per cent per quarter).

¹ The numbers of claims reported for accidents from 2014 onward, include projections for claims incurred but not yet reported (IBNR).

² Section b) - Claims per accident quarters considers expected claims from projections as at September 2016 for all future time not just the quarterly increase expected from newly reported claims from the June 2016 valuation, discussed in section a) - newly reported claims

Graph 4: Claims by accident quarter



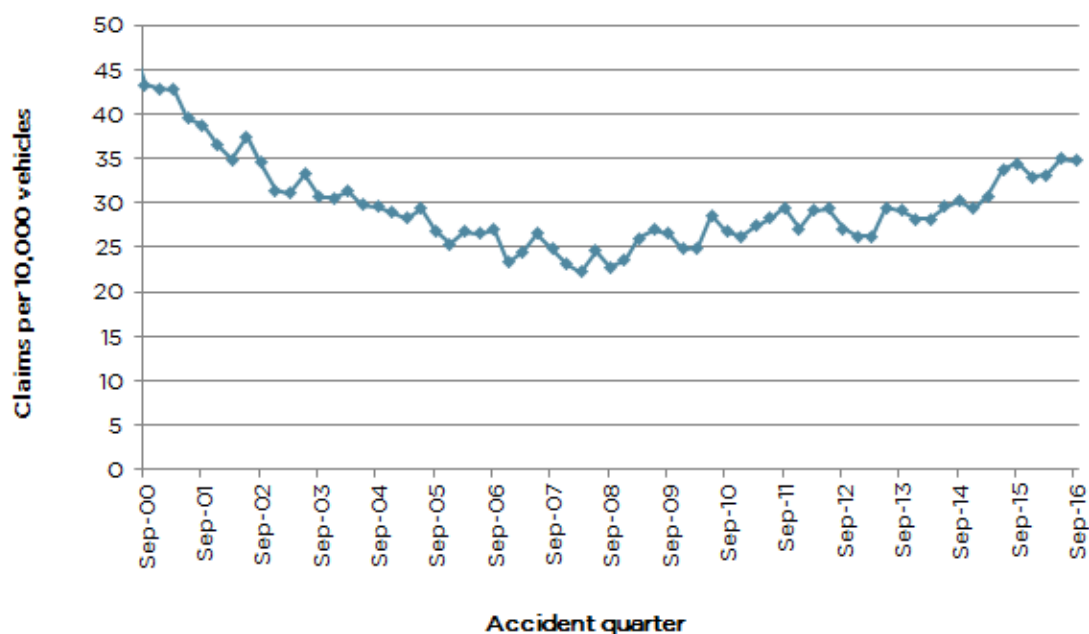
This data reinforces the view that claim numbers are increasing faster than anticipated. Analysis of this issue has led to SIRA's focus on deterring CTP fraud. The issue is discussed in SIRA's publication *Deterring fraudulent and exaggerated claims in the NSW CTP insurance scheme*.

Claims frequency

Claim frequency is defined as the ultimate number of claims divided by the number of registered vehicles. The ultimate number of claims comprises all reported notifications (full claims and Accident Notification Forms (ANFs)) plus an estimate of claims yet to be reported.

Graph 5 shows the trend in claim frequency by accident quarter. The estimated claim frequency for the September 2016 accident quarter is 35 claims per 10,000 vehicles and the average for the year to September 2016 is 34 claims per 10,000 vehicles. The claims frequency is continuing the upward trend that began in March 2008, however the claim frequency for the last two quarters to September 2016 appears quite stable.

Graph 5: Trend in claims frequency



Note: For the more recent accident quarters, projections are based on incomplete claims hence data presented for these quarters are just indicative and depends on the robustness of ultimate claims projections.

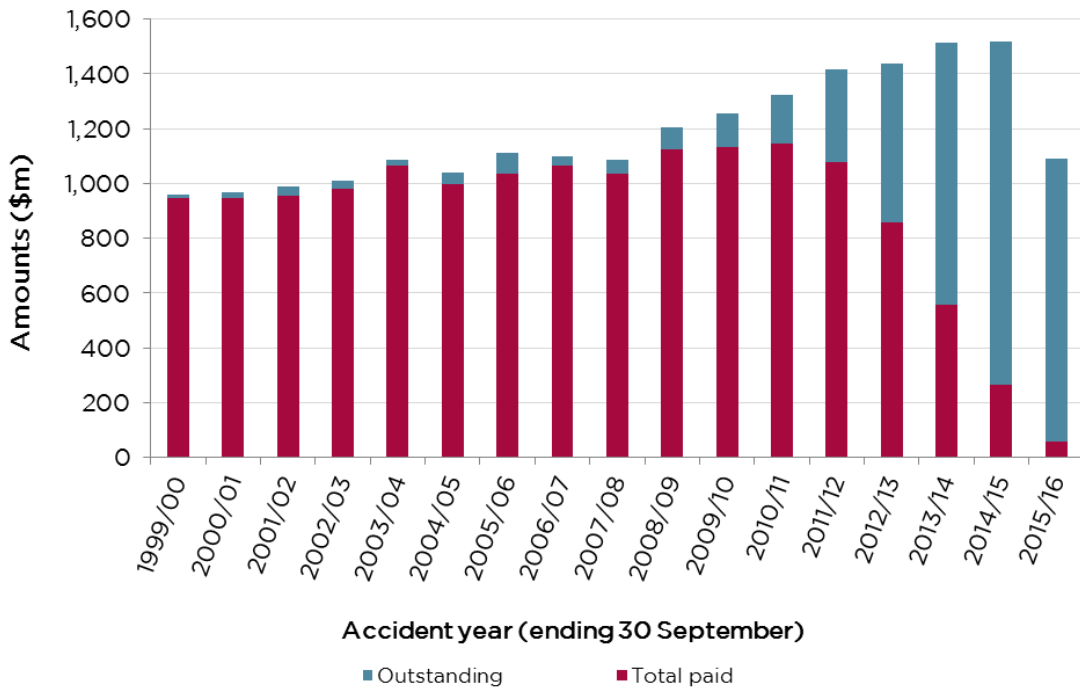
Claims cost

As at 30 September 2016, a total of 224,802 notifications (full claims and ANFs) with a total incurred cost of \$20.1 billion³ have been reported since the current scheme commenced in October 1999. It is estimated that \$4.9 billion (24%) is yet to be paid for claims reported to date.

Graph 6 shows how this unpaid amount is distributed across prior full accident years. Further development in payments is anticipated for accident year 2015/16, as late claims are reported and estimates for already reported claims are revised in line with new information becoming available to insurers.

³ Incurred cost comprises the amount already paid on claims plus an estimate for likely future payments on claims yet to be finalised. Incurred costs shown here are as reported by insurers and have not been adjusted for inflation.

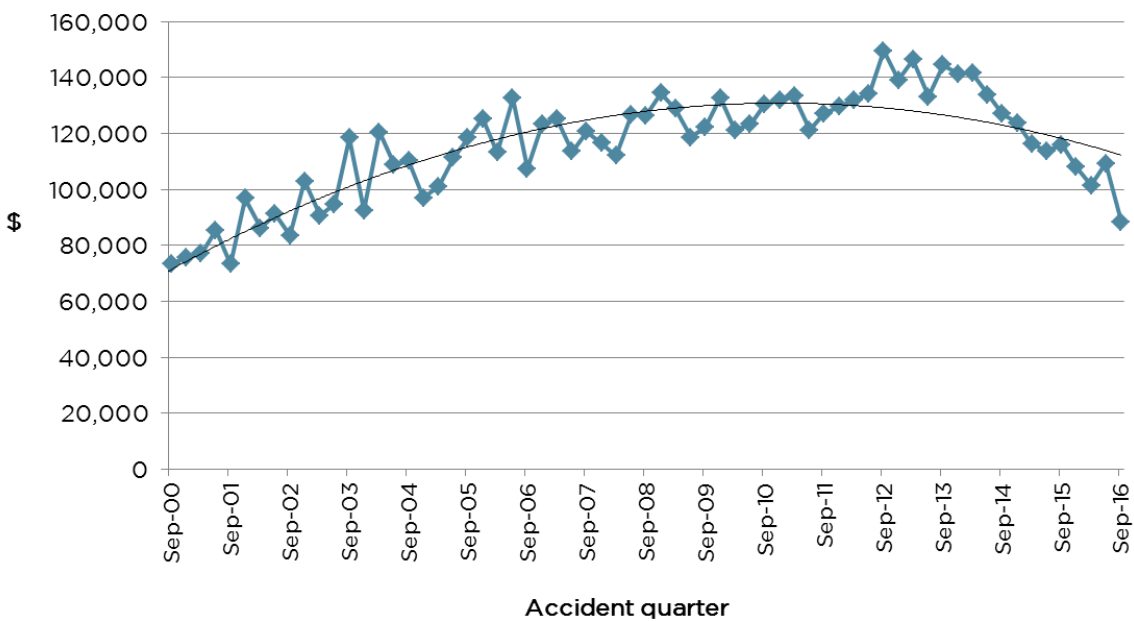
Graph 6: Payments on reported claims as at 30 September 2016



The trend in average incurred costs of full claims that have already been lodged with CTP insurers is shown in Graph 7. The incurred costs are historic amounts and exclude adjustments for inflation.

Graph 7 shows how this unpaid amount is distributed across prior full accident years. Further development in payments is anticipated for accident year 2015/16, as late claims are reported and estimates for already reported claims are revised in line with new information becoming available to insurers.

Graph 7: Average incurred cost (full claims only)



Since the start of the current scheme, the average incurred cost increased from about \$67,000 in December 1999 to almost \$150,000 in September 2012 and then began to fall thereafter. For claims already reported, insurers will continue to revise their cost estimates as more information is received on these claims. Also insurers are yet to receive late claims from some accidents that have already occurred but not yet had claims lodged. These revisions and late reports introduce some uncertainty in the average costs estimates, hence the trend line superimposed on Graph 7 presents a more likely level of final average costs of claims in more recent accident quarters. For example, the average incurred costs of claims arising from accidents in September 2015 is more likely to be around \$121,000 and \$115,000 for claims from September 2016 accidents.

About SIRA

SIRA is the government organisation responsible for the regulatory functions for workers compensation insurance, motor accidents compulsory third party (CTP) insurance and home building compensation in NSW.

We focus on ensuring key public policy outcomes are achieved in relation to service delivery to injured people, affordability, and the effective management and sustainability of these insurance schemes.

For the NSW motor accidents insurance scheme, we monitor insurer performance, support road safety initiatives, promote optimal recovery for injured people and provide an independent dispute resolution service.

SIRA assumed the regulatory functions of the former Motor Accidents Authority from 1 September 2015.

Contact

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Disclaimer

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

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

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