

# Review of June 2016 Nominal Insurer Valuation

Report to the Minister  
for Finance, Services  
and Property

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State Insurance  
Regulatory Authority

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# Letter to Minister

The Hon. Victor Dominello, MP.

Minister for Finance, Services and Property

Dear Minister

On behalf of the SIRA Board, I am pleased to provide a report on the review of the June 2016 Nominal Insurer valuation.

The Board has reviewed the PwC report on the June 2016 liability valuation of the NSW workers compensation Nominal Insurer (managed by icare). As part of this review, the Board has considered stakeholder views and expert advice.

Key stakeholders were invited to provide feedback on issues to be considered in the review. This report includes a summary of issues raised. In particular, the Board notes a strong view that there should be greater transparency of Nominal Insurer valuation and pricing methodologies made available to workers compensation system participants.

The 2012 and 2015 legislative amendments to the workers compensation system resulted in substantial changes to benefit design, interaction with providers, and the structural regulation and operation of the system.

The review of the Nominal Insurer valuation identified a number of key risks related to the unquantified ultimate impact of these legislative reforms. If these risks are realised they could have a material impact on scheme liabilities and surplus.

The SIRA Board has determined that the substantial uncertainty and risk underlying the valuation assumptions prevents a robust conclusion as to the existence of a 'structural surplus' as at June 2016.

The SIRA Board recommends that the NSW Government does not commit to changes to benefit and premium settings at this time.

Further to this recommendation to defer consideration of changes to benefit and premium settings, the SIRA Board will review the Nominal Insurer valuation and report to the Minister at least annually, with a report to the Minister expected to be provided by January each year, including recommendations for opportunities for changes to premium and benefit settings.

SIRA intends to review further icare actuarial reports on the liability valuation for the Nominal Insurer as at December 2016 and June 2017 and will provide a report to the Minister before the end of 2017.

This review has informed the approach to the development of the prudential framework for the workers compensation system which is currently under consideration by the SIRA Board. This framework is planned to commence from June 2017 and it will set the prudential standards for all insurers including the Nominal Insurer.

I would like to thank icare for providing the June 2016 Nominal Insurer valuation and access to icare's external actuaries.

Yours sincerely

**Trevor Matthews**

**Chair, State Insurance Regulatory Authority Board**

# Executive summary

In the Budget estimates hearing on 1 September 2016, the then Minister for Innovation & Better Regulation, the Hon Victor Dominello MP, committed SIRA to review the June 2016 funding ratio of the Nominal Insurer, comment on the existence or otherwise of a potential structural surplus, and provide recommendations to the Government regarding premium and benefit settings.

SIRA has reviewed the PwC report on the Actuarial valuation of the insurance liabilities for the NSW Workers Compensation Nominal Insurer as at 30 June 2016 (“June 2016 valuation report”). The funding ratio reported in the Nominal Insurer valuation as at 30 June 2016 was 123% based on a probability of sufficiency of 80%.

The purpose of the valuation is to determine an appropriate provision for outstanding claims and premium liabilities that is recorded on the Nominal Insurer’s financial balance sheet. In simple terms, the valuation of liabilities represents *the amount of assets needed to be set aside today, earning interest, to pay all outstanding claims (estimated at the date of valuation) as costs fall due at a future time*. Much attention is often focussed on the ratio of assets to liabilities (the funding ratio), and it is argued that if the former exceeds the latter, any ‘surplus’ should be returned in improved benefits or lower premiums.

However, the issue of whether any surplus should be returned at any point in time is far more complex. Valuations are by their nature complex, and a wide range of assumptions are made in their preparation. Indeed, the current valuation is based on an assumption that there is an 80% probability that the level of assets will be adequate to meet future claims (whereas commercial insurers often operate using more stringent standards). It needs to be recognised that because the valuation seeks to estimate assets required over a very long period of time, there is a high degree of uncertainty and there are likely to be variations from one valuation to the next. This review seeks to explain some of these issues.

To inform this review, 24 key stakeholders were invited to provide feedback on issues to be considered. A strong view emerged that there should be greater transparency of the Nominal Insurer valuation of insurance liabilities and pricing methodologies with relevant information made publicly available. In response SIRA will require icare to publish an executive summary of the June 2016 valuation report and executive summaries of all future valuation reports within five months of each period end – 30 June and 31 December.

The NSW workers compensation system has seen significant changes and legislative amendments over the past four years. The most recent legislative amendments in 2015 resulted in substantial changes to benefit design, interaction with providers, and the structural regulation and operation of the system. The ultimate impact of 2015 legislative amendments is not yet known, and it will take some time before there is a degree of certainty in the behaviour and resultant underlying cost of the system.

The review of the assumptions and key uncertainties in the Nominal Insurer valuation identified a number of key risks, largely related to the remaining uncertainty about the financial impact of the 2012 and 2015 legislative amendments. If these risks are realised they could have a material impact on scheme liabilities and the funding ratio required for prudent management of the fund.

This approach recognises that changes to personal injury insurance schemes often take several years to be fully implemented and for the financial impacts to be assessed reliably.

This is because people who experience injury may find that it takes some time for the recovery process or for the full impact of the injury to be known and this means the actual claim costs cannot be ascertained for several years. In addition, there may be unexpected legal issues that arise from legislative amendments that result in uncertainty about insurer liabilities until clarified by the courts.

After legislative changes it can take three years or more before uncertainty associated with legal challenges is resolved.

For example in Queensland in the case of *Bourke v Power Serve Pty Ltd & Anor* in 2008 found that the interpretation of the the Act resulted in a finding that a trivial injury that occurred in 2006 was a sufficient breach of the Act to warrant a common law claim. This resulted in an increase in common law claims with a consequent significant increase in liabilities. The Queensland Government remedied this through the introduction of the Workers Compensation and Other Legislation Amendment Bill 2010.

Similarly, in NSW legal challenges arose regarding amendments to lump sum permanent impairment introduced in the *Workers Compensation Amendment Act 2012* passed by the NSW Parliament in June 2012. *ADCO Constructions Pty Ltd v Goudappel* was determined in the High Court on 18 May 2014 and *Cram Power Fluid v Green* was determined in the NSW Court of Appeal on 27 August 2015. Subsequent to the *Cram Power Fluid* decision the NSW Government published the *Workers Compensation Amendment (Lump Sum Claims) Regulation 2015* on 13 November 2015. Both cases covered access to benefits for differing cohorts of injured workers and resulted in increased uncertainty in valuation liabilities until resolved.

Consequently, SIRA has determined that there is substantial risk underlying the valuation assumptions. Therefore there cannot be a robust conclusion as to the existence of a 'structural surplus' as at June 2016, which is less than a year after the 2015 workers compensation legislative amendments.

Having regard to these factors and the objectives of the workers compensation system to ensure a fair, affordable and financially viable system, SIRA recommends that:

- the NSW Government does not commit to changes to benefit and premium settings at this time.

Further to this recommendation that consideration of changes to benefit and premium settings be deferred, SIRA plans to undertake a review of the Nominal Insurer Valuation and report to the Minister at least annually. It is expected that SIRA would provide a report to the Minister by January each year, noting a lead time of four months for the development of the actuarial valuation report. Future reviews will be undertaken along similar lines to this review and will recommend opportunities for changes to the benefit and premium structures.

SIRA intends to review further icare actuarial reports on the liability valuation for the Nominal Insurer as at December 2016 and June 2017 and will provide a report to the Minister before the end of 2017.

This review has informed the prudential framework for the workers compensation system which is currently under consideration by SIRA. This framework is planned to commence from June 2017 and will set the prudential standards, including a sustainable target funding ratio, for all insurers including the Nominal Insurer.

# Review approach and scope

The review was undertaken by SIRA over the period November 2016 to January 2017 following receipt of the report: Actuarial valuation of the insurance liabilities for the NSW Workers Compensation Nominal Insurer as at 30 June 2016 prepared by PwC (“June 2016 valuation report”).

SIRA invited 24 key stakeholders to provide feedback on issues to be considered in the review. In undertaking the review, SIRA utilised its access to a range of independent expert advisors including actuaries and industry experts in the field of workers compensation, public policy and risk management. SIRA also met with both icare internal actuaries and PwC as the Nominal Insurer’s external actuary (PwC) during the review period.

The review focussed on an examination of the underlying assumptions and key uncertainties in the June 2016 valuation report.

The review necessitated consideration of the Nominal Insurer capital and prudential settings as described in the June 2016 valuation report. Although this report does not make specific recommendations on the capital and prudential standards as they relate to the Nominal Insurer, the review has informed the approach to the development of the prudential framework for the workers compensation system which is currently under consideration by SIRA. This framework is planned to commence from June 2017, and will set the prudential standards for all insurers including the Nominal Insurer.

## Summary of stakeholder feedback

On 7 November 2016, SIRA wrote to 24 key stakeholders advising them of the review of the Nominal Insurer June 2016 valuation. Ten stakeholders provided feedback with some major themes emerging;

*Transparency* – a number of stakeholders provided feedback requesting full disclosure of the Nominal Insurer June 2016 valuation report and pricing methodologies.

*Funding ratio* – a number of stakeholders noted that different regulatory standards apply across various Australian public monopoly personal injury compensation schemes (including icare), compared to a private general insurer that is subject to APRA oversight. It was noted that icare’s last published target funding ratio (110%) is below that targeted by an APRA regulated general insurer (and is below icare’s actual current target ratio of 120-140% - see p12). There was commentary on the appropriateness of whether a monopoly statutory scheme, that is funded by employer premiums, should maintain a funding ratio reflecting APRA minimum capital requirements.

*Benefit settings* – there were divergent views, with some stakeholders advocating for benefit changes, which provide further weekly and medical benefit entitlements to eligible workers, and other stakeholders recommending no changes due to past volatility and current uncertainty.

*Premium settings* – there were divergent views, with some stakeholders advocating more funding to improve employer safety, and other stakeholders recommending no changes noting the recent premium reductions.

## The review

In the Budget estimates hearing on 1 September 2016, the then Minister for Innovation & Better Regulation, the Hon Victor Dominello MP committed SIRA to review the June 2016 funding ratio of the Nominal Insurer, comment on the existence or otherwise of a potential structural surplus, and provide recommendations to the Government regarding premium and benefit settings.

On becoming Minister for Finance, Services and Property, following the establishment of the Berejiklian Government, the Hon Victor Dominello MP retained responsibility for the State Insurance Regulatory Authority (SIRA) which regulates the NSW workers compensation system.

## Valuation of insurance liabilities

### Context

The Nominal Insurer commissions a valuation of the Nominal Insurer's insurance liabilities every six months prepared by an independent actuary. The most recent report was the June 2016 valuation report prepared by PwC.

The purpose of the valuation is to determine an appropriate provision for outstanding claims and premium liabilities that is recorded on the Nominal Insurer's financial balance sheet. In simple terms, the valuation of liabilities represents *the amount of assets needed to be set aside today, earning interest, to pay all outstanding claims (estimated at the date of valuation) as costs fall due at a future time*.

The Institute Actuaries of Australia and the Australian Accounting Standards Board both provide guidance that is used by actuaries to provide a high quality valuation. Without a high quality valuation, insurers may find there are insufficient funds set aside to pay claims.

In personal injury compensation insurance, claims are often paid out over a long period of time, so it may take many years before an insurer knows how much a claim will cost. This means complex valuation estimation methods are required. The estimation of liabilities includes using the best available data to inform estimates and assumptions, including wage inflation, superimposed inflation (claims cost inflation beyond natural wage growth), duration of key benefit types and average claims size, the impact of changes in legislation and other factors on claiming behaviour and claims costs, and economic factors such as discount rates.

There is a degree of uncertainty in the valuation as the ultimate number and cost of claims will not be known for some time: some claims may be lodged late, and the average duration of claims is not certain, with some injured workers continuing to receive weekly benefits to retirement age and some may receive medical benefits for life. In estimating an appropriate



provision for insurance liabilities, the following elements are adopted that implicitly introduce a degree of conservatism:

*Discount rate:* under Australian Accounting standards (AASB 1023), claims liabilities must be discounted using a risk-free rate, such as the long term Commonwealth bond yield rate. This implies that assets set aside to meet liabilities accrue income at the risk-free rate (irrespective whether assets are invested in classes expected to generate a higher return).

*Risk Margin:* insurance liabilities are first estimated as an ‘unbiased’ central estimate, that has an equal chance of being either too high or too low, in hindsight. This reflects a 50% probability of sufficiency (“PoS”). The Australian Prudential Regulatory Authority (APRA) requires insurers to apply a risk margin to increase the PoS to at least 75%. This is a statistical measure of the level of confidence that the funds put aside to pay claims will be sufficient to cover the claims costs when they need to be paid. Many insurers adopt a more stringent PoS standard such as 80%, 85% or 95%. The valuation actuary estimates the risk margin needed to be added to the central estimate of insurance liabilities to increase the PoS to the level specified by the insurer. For the Nominal Insurer valuation at June 2016, the risk margin required for an 80% PoS was 15.6% of the net central estimate of insurance liabilities, or approximately \$1.7 billion.

## Valuation of Insurance Liabilities as at 30 June 2016

Component of valuation	30 June 2016 valuation of insurance liability (\$M)
Net Central Estimate of Insurance Liability <sup>1</sup>	11,258
Risk Margin for 80% PoS <sup>2</sup> (15.6%)	1,765
<b>Total</b>	<b>\$13,015</b>

1. Inflated and discounted, with allowance for future claims handling expenses, and net of recoveries

2. Additional insurance liabilities to increase the Net Central Estimate of Insurance Liabilities to 80% PoS

## Key risks and uncertainties in the valuation

The review of the underlying assumptions and key uncertainties in the Nominal Insurer valuation identified a number of key risks, largely related to the unknown impact of the legislative amendments and regulation changes. If these risks are realised they could have a material impact on scheme liabilities and recommended funding ratio.

## Context

Over the past ten years the Nominal Insurer has seen periods of deficit and surplus with large fluctuations. Each extreme position has led to legislative, regulatory or operational change. Consequently, the NSW workers compensation system has seen significant changes and legislative amendments over the past four years. For example, the \$4.1 billion deficit of December 2011 preceded the 2012 legislative amendments (that restricted many benefits). The significantly improved position of December 2014 preceded the 2015 legislative amendments (that expanded some benefits).

## 2012 reforms

In 2012 legislative amendments resulted in considerable adjustment in the benefit structure of the system. The amendments introduced a focus on capacity for work, rather than a focus on an injured worker's medical incapacity. This took the form of work capacity decisions and review processes, which are consistent with the operation of weekly payments in other comparable jurisdictions.

A key element of the reforms was the introduction of a 5 year (260 week) cap on weekly payments for workers with 20 per cent or less permanent impairment (PI). As specified under section 39 of the *Workers Compensation Act 1987* (the 1987 Act).

The first transition of workers from weekly payments will not occur until September 2017, thus there is considerable uncertainty on the cost impact assumed in the 2016 valuation report. As the transition of injured workers through the application of section 39 is in its early stages, the ultimate cost impact to the workers compensation system is not yet fully known. Indications are that the impact on liabilities would be greater than \$1 billion if 20 per cent fewer workers transition off than currently assumed.

## 2015 Reforms

The retrospective application of the *Workers Compensation Amendment Act 2015* and the structural and operational changes of the *State Insurance and Care Governance Act 2015* will require some time before their full impacts are realised.

The 2015 legislative amendments provided further support to injured workers with high needs, consistency in application of retirement age weekly payment cut-offs, increases in lump sum payments for serious permanent injury and death, as well as extended medical payments associated with the severity of a permanent injury.

Additionally, the *Workers Compensation Amendment (Legal Costs) Regulation 2016* commenced on 16 December 2016. This Regulation allows a legal practitioner to be paid for providing legal advice to a worker in connection with an application for merit review of a work capacity decision. The maximum costs payable are \$1,800 if the merit review results in a favourable finding for the worker, or in any other case, up to \$1200. The costs are payable by the insurer. The impacts of this regulation on costs and behaviours within the system will not begin to be realised until the December 2017 valuation.

SIRA conducted an extensive period of consultation in 2016 with key stakeholders on the application of pre injury average wages (PIAWE) in the system. It is likely that there will be further changes associated with PIAWE in 2017.

## Capital & funding ratio

### Context

Given the long tail nature and inherent risk of Workers Compensation schemes, insurers hold a capital buffer (assets in excess of liabilities) to guard against unforeseen adverse shocks to the balance sheet, ranging from investment volatility, insurance risk (claim numbers and/or costs in excess of that expected) and financial contagion risk from underperformance of other lines of business.

Australian general insurers regulated by APRA are required to hold a minimum level of capital (Prudential Capital Requirement, “PCR”). This “capital buffer” aims to ensure there are sufficient assets to survive a 1 in 200 year failure event. This is equivalent to holding buffer capital in the order of 20% in excess of insurance liabilities (or a *funding ratio* of 120%, representing the ratio of assets to liabilities).

The principal purpose of the PCR is to protect premium payers and claimants from insurer insolvency, which if occurred would leave them financially disadvantaged.

Reflecting a low risk tolerance (appetite) of default in any one year (even at a 1 in 200 year level) and the desire to maintain a high grading from Rating Agencies, Australian general insurers typically hold a substantially larger capital buffer than the minimum specified under the APRA PCR methodology. Hence, private general insurers regulated by APRA typically maintain buffer capital in the order of 65% in excess of insurance liabilities (equivalent to a funding ratio of 165%). Moreover, many general insurers set their insurance liability provisions using a PoS higher than the minimum of 75% required by APRA, typically in the range 80% - 90%.

#### *Capital Management practices of public monopoly schemes*

Australian public monopoly schemes underwriting workers’ compensation (and Compulsory Third Party (CTP) insurance for motor vehicle accidents) value their insurance liabilities in accordance with the relevant Australian accounting standards. With respect to risk margins, although not compelled to use the APRA minimum PoS of 75%, many have regard to this minimum and set their risk margin in the range of 65%-75%.

A key distinguishing feature is the capital management policy, where there is no requirement to comply with the APRA PCR to specify the minimum amount of capital required to support the business. The target buffer capital (hence funding ratio) set by public monopoly schemes, in general, is set in line with the government’s (or Treasury Department) risk appetite.

In setting the target capital buffer (hence target funding ratio) for a public monopoly insurance scheme, the following factors are typically taken into account:

- The scheme can take long term actions to address balance sheet shocks where the buffer capital and funding ratio in the short-medium term falls below that targeted
- Where the funding ratio is below 100%, schemes have sufficient reserves to pay all claims as they fall due, at least in the medium term
- There is limited risk of default where policy holders and claimants are abandoned due to insolvency because there is an implicit guarantee that they will be supported by the state, that has far broader financial security and backing than a sole general insurer
- From a public policy perspective, there is a view that capital surplus to requirements is better deployed for the broader benefit to the State, rather than being tied-up in investment assets of the insurance entity (sometimes referred to as ‘lazy capital’)
- The setting of a funding ratio target can adopt an economic perspective as a longer term view can be taken – recognising investment assets may earn an income higher than the Australian accounting standard AASB 1023 use of a risk-free rate, which would allow higher investment returns and lower risk margins to be applied.

Hence, buffer capital (and funding ratio) targets and target ranges for public monopoly schemes are generally set at levels equivalent or below those adopted by private general insurers. In the case of Victoria, although the target funding ratio is 100% (to which target pricing is also calibrated), an acceptable range that requires no action on behalf of the Victorian WorkCover Authority is 82.5 - 117.5%.

## Nominal Insurer funding ratio and target operating range

The June 2016 Nominal Insurer valuation report states that the funding ratio of the Nominal Insurer as at June 2016 was 123 per cent, that is, net assets (or funding position) of \$3.353 billion. This is \$1.898 billion in excess of icare's previous minimum funding ratio target of 110 per cent based on an 80% PoS. (This target, specified in 2015, was initially endorsed by icare, but is not currently endorsed by the icare board). It is within icare's current target funding ratio (see below).

The funding ratio is projected to marginally increase over the next five years, albeit there is a degree of uncertainty associated with economic conditions and ultimate claims experience to emerge following the 2012 and 2015 reforms.

### *Funding ratio target*

Prior to 2015, the Safety Return to Work and Support Board had a policy of setting a minimum funding ratio of 110 per cent, meaning that the actuarially assessed assets of the Nominal Insurer should represent 110 per cent of the actuarially assessed liabilities (including a 15.6% risk margin at an estimated PoS of 80 per cent).

The target funding ratio operating range for the Nominal Insurer has been reviewed by icare. In October 2016, the icare Board endorsed a funding ratio operating range for the Nominal Insurer of 120-140 per cent based on a 75% PoS. This range was established with reference to icare's estimation of the equivalent APRA PCR for the Nominal Insurer, estimated to be 127% at 30 June 2016.

This policy has been provided to SIRA for review. It has also been included in icare's response to questions on notice in the most recent Law and Justice Committee review.

It is noted that a key concern for stakeholders, particularly employers and injured worker groups, is whether the Nominal Insurer, as a monopoly statutory scheme funded by employer premiums, should maintain a funding ratio reflecting APRA minimum capital requirements.

The Nominal Insurer valuation review has informed the development of a revised prudential framework for the workers compensation system which is currently under consideration by SIRA. This framework is planned to commence from June 2017 and will set the prudential standards for all insurers including the Nominal Insurer. Until the prudential framework for all insurers is finalised, including a view on the capital management requirements of the Nominal Insurer, it would be premature to argue there is a structural surplus.

## Is there a Structural Surplus?

The NSW Government made an election commitment to immediately review the financial position of the Workers Compensation Scheme, and out of that one-off review:

*“...of every dollar above the minimum surplus to keep the Scheme sustainable, two thirds would be invested in supporting return to work/seriously injured workers and one third returned to business as lower premiums.”*

For the purposes of this review, a ‘structural surplus’ is defined as:

The surplus net assets, in excess of the targeted funding ratio range, that accrue in a mature<sup>1</sup> personal injury compensation scheme, that are demonstrated to be sustainable giving due allowance for uncertainties associated with the estimate of insurance liabilities, future investment returns and the target collection rate of premium being not less than the breakeven premium rate.

<sup>1</sup> Reference to a ‘mature’ scheme in this context is the absence of recent legislative change that results in substantial uncertainty on future claims costs and insurance liabilities

The review has concluded that there remains a high degree of uncertainty of the sustainability of the apparent surplus net assets recorded in the June 2016 valuation report.

- With respect to claims liabilities, uncertainty remains on the ultimate impact of the 2012 and 215 reforms, and pending reforms not included in the June 2016 valuation such as the role lawyers will play in the Scheme to review work capacity decisions.
- Local and global investment markets continue to be volatile, which has a significant impact on the Nominal Insurer’s investment portfolio. Movements in interest rates have to date had an impact on the liabilities of the Nominal Insurer and further reductions in interest rates may compound these impacts.

At this time, the future financial position of the Scheme is too uncertain to conclude that there is a structural surplus.

## SIRA capital and prudential framework

SIRA is currently reviewing and revising capital and prudential requirements and will implement an improved framework that will apply to insurers operating in the NSW workers compensation system.

This review has informed the prudential framework for the workers compensation system which is currently under consideration by SIRA. The new framework, which is planned to commence from June 2017, will set the prudential standards for all insurers including the Nominal Insurer.

In finalising the framework over coming months, SIRA will consider further how the minimum funding ratio and operating range for the Nominal Insurer should be determined. Factors to be considered in the review and development of a response to the NI capital management policy will include, but not be limited to the following:

- With respect to APRA’s prescribed capital requirement (PCR) and the funding operating range proposed by icare to mirror this:
  - does icare’s capital management policy provide any additional stability in premium and benefit settings?

- is it appropriate for a compulsory monopoly statutory insurance scheme with the ability to address balance sheet shocks over a period of several years to comply with an APRA PCR equivalence regime?
- does the adoption of APRA PCR standards contribute to achieving competitive neutrality as per NSW government policy?
- How should the premium pricing policy be integrated with and aligned to the Capital and Prudential Framework?
- Is the retention of a capital buffer that is calibrated to APRA PCR an efficient use of assets for a monopoly statutory insurance scheme in NSW?
- How does the proposed target operating range work in conjunction with s154D(4) of the 1987 Act, which entitles employers to participate in the distribution of any surplus?

Until this review is complete and recommendations made in regard to the development of the framework and regulations under section 202C of the 1987 Act, confirmation of the appropriateness of the Nominal Insurer's target funding ratio would be premature.

## Summary and conclusions

Though the funding ratio for Nominal Insurer as at 30 June 2016 is stated to be 123 per cent based on the evidence available and actuarial requirements, SIRA considers that there are a number of valid risks that could reduce the apparent level of excess assets.

This review necessitated consideration of the Nominal Insurer capital and prudential settings as described in the 2016 valuation report. Although this report does not comment specifically on the capital and prudential standards as they relate to the Nominal Insurer, the review has informed the approach to the development of the prudential framework for the workers compensation system which is currently under consideration by the Board.

This review has also highlighted stakeholder concerns about transparency of the performance of the Nominal Insurer. SIRA will require icare NSW to publish a summary of the Nominal Insurer June 2016 valuation.

## Recommendation

Based on the underlying uncertainty that exists in the workers compensation system and reflected in the Nominal Insurer's June 2016 valuation, SIRA recommends:

1. the NSW Government does not commit to changes to benefit and premium settings at this time.

SIRA will undertake a review and report to the Minister of the Nominal Insurer valuation of insurance liabilities at least annually, with a report provided to the Minister by January each year, noting a lead time of four months for the development of the actuarial valuation report. These future reviews will be undertaken along similar lines to this review and will recommend opportunities for changes to the benefit and premium structures.

In particular, SIRA intends to review further icare actuarial reports on the liability valuation for the Nominal Insurer as at December 2016 and June 2017 and will provide a report to the Minister before the end of 2017.

SIRA will require icare to publish an executive summary of the June 2016 valuation report and executive summaries of all future valuation reports within five months of each period end.

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