



# Workers compensation market practice and premiums guidelines: Annexure E

## Premium filing process in accordance with s168, 1987 Act

1. This annexure is intended to help licensed insurers meet the requirements of the Guidelines. It is also intended to describe SIRA expectations for premium filings.
2. It is important for an insurer to supply sufficient information to SIRA so that an analysis of the licensed insurer's submission concludes that the filing:
  - a) has been based on central or best estimate assumptions where required
  - b) satisfies the pricing principles outlined in the Guidelines, and
  - c) represents a genuine effort on the part of the insurer to offer premiums that are reflective of an employer's risk.
3. The onus on insurers is to provide sufficient information in order for SIRA to be able to assess that the proposed premiums meet the requirements of the Guidelines. If SIRA needs to request greater detail after the filing it may lead to a delay in the acceptance or non-rejection of the filing.
4. Each licensed insurer's premium filing is to set out in detail:
  - a) the proposed rating structure
  - b) the premium formula inclusive of all parameters that will be applied
  - c) proposed premium rates by WIC.
5. Where an insurer has derived tariff rates (to be used within its pricing structure) then the derivation of these tariff rates from first principles should be included in the filing. The premium filing is to be submitted on a prospective basis, with all discounts and adjustments included as well as the objectively defined triggers for these discounts and adjustments. Insurers are to ensure that:
  - a) projected claim costs (including associated economic assumptions and superimposed inflation assumptions) are on a central estimate basis; that is, not conservative (intentionally or unintentionally). The projected claims costs by appropriate heads of damage and the relationship between the projected claims costs and the outstanding claims valuation basis needs to be shown (that is, there needs to be a reconciliation between the pricing basis and the valuation basis)
  - b) prospective changes in claims costs as a result of changes in portfolio mix (arising from changes to the acquisition strategy, discounts, competitor

behaviour, and so on) and any other relevant factors are reasonable and based on sound analysis

- c) the expense loadings filed by insurers represent an efficient policy administration and claims handling process. This will be assessed by SIRA through benchmarking costs across insurers after taking into account different distribution strategies adopted by insurers
  - d) the expense loadings filed by insurers are set with reference to insurers' best estimate of expenses taking into account their current internal management budgets and internal strategies to control costs
  - e) the profit margins included within filed expense loadings take into account the compulsory nature of the workers compensation product.
6. The premium filing for each licensed insurer is to include an explanation and supporting evidence of:
- a) the proposed rating structure and all formulae
  - b) all parameters relating to the calculation of the rates (including evidence supporting the derivation of the parameters)
  - c) detailed methodology of the use of claims costs within the premium calculation including, but not limited to, included and excluded claims cost, claim costs limits, claims reporting periods and, any discounts or exemptions and in what circumstances they apply
  - d) the breakeven premium rate and the target premium rate for the portfolio and supporting justification if these rates are different from each other
  - e) evidence supporting the derivation of the breakeven premium rate and the target premium rate
  - f) description of how the rating structure is to be applied to individual cohorts within the portfolio (for example, industries and small and large employers)
  - g) the estimated numbers of employers to be insured, and:
    - i) the premiums and wages by WIC code for the current policy renewal year ending 30 June for medium and large employers
    - ii) the premiums and wages by WIC code for the next policy renewal year commencing 30 June for medium and large employers
    - iii) the estimated claims cost for each WIC code for the current and next policy renewal year;, and
    - iv) the estimated premium discounts and loadings summarised by both employer size and level of discount and loading.
  - h) a projection of the insurer's capital position to an appropriate level of detail (including balance sheet, profit and loss statement, and all key assumptions) at the end of the fund year and three forward years as a result of writing the business proposed under the rating structure. For all insurers, projected assets and liabilities should be provided in sufficient detail so that the impact of key assumptions can be seen. The sensitivity of the capital projection to the key assumptions should be shown. For multi-line insurers, a projection showing the

NSW workers compensation portfolio and the total entity level should be included.

- i) whether premium payment instalment plans are to be offered to their insured employers. If a licensed insurer submits that payment plans will be made available to their insured employers, they must submit:
    - i) a schedule of payments plans detailing the frequency of payments and instalment dates for insured employers
    - ii) the requirements of employers to be eligible for each payment plan type
    - iii) expected number of insured employers within each payment plan type and the expected premium pool within each type
    - iv) the expected proportion of the total premiums for each instalment under each premium payment installment plan type, and
    - v) details of any discounts applicable to the payment of premiums under the instalment payment plans.
  - j) average past actual and future rates and amounts of acquisition, marketing and policy handling expenses with an explanation and description of the methodology used to allocate expenses.
  - k) actuarial assumptions which outline and demonstrate the support of the premium filing.
7. An insurer is required to provide an actuarial opinion detailing the degree of compliance of the proposed rating structure with the pricing principles including supporting evidence as to how the actuary satisfied themselves of compliance.

### Level of justification and explanation

8. When considering the level of detail to be included in premium filings, insurers should include sufficient information within the report such that an informed reader can draw the required conclusions. This level of detail is comparable to the detail required for a full valuation report subject to the Institute of Actuaries Professional Standard 300.
9. Insurer premium filings must provide sufficient detail to enable SIRA to make its own assessment as to whether the filed assumptions lead to a premium that complies with the premium principles.
10. Each premium filing must include the licensed insurer's assessment, with supporting evidence, of how the rating structure and premiums meet the premium principles as specified in Part 5 of the Guidelines.
11. Each premium filing must clearly demonstrate how the proposed premium, policies of insurance and processes meet the premium requirements of the relevant legislation and regulations as specified in Part 6 of the Guidelines.