

28 November – 1 December 2004

# Xth Accident Compensation Seminar

2004



Institute of Actuaries of Australia

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## Scheme Efficiency – QLD CTP

**Lesley Anderson - MAIC**



Institute of Actuaries of Australia



# Queensland Scheme Efficiency

In the 1999 Review of the Queensland CTP scheme, efficiency was defined in terms of the cost of delivery of benefits to injured parties.

- Claimants benefits includes direct payments to claimants, plus the hospital and emergency services levy and 80% of the Nominal Defendant levy
- Delivery costs includes defendant legal costs, plaintiff legal costs paid by the insurer, outlays such as medico legal reports etc, insurer expenses including net reinsurance costs, profit, allowances, administration levies and net GST



# Review Recommendations

- 1.3 Long-term target rates of efficiency be established, expressing as a proportion of the premium
  - (a) Payments made to injured parties
  - (b) Payments made in respect of serious and other injury claims
- 1.4 Necessary improvements be made to claims data collection, especially in terms of injury severity coding, in order to establish the long-term target rates in 1.3(b)
- 1.5 MAIC to consider whether the rate of efficiency proposed in 1.3 should be based on Class 1 or all classes and on accident year or payment data.



# Efficiency Index

At the time of the Review, the efficiency index was calculated at 67 per cent.

The Queensland Government suggested a target of 75 per cent.



# Efficiency Index

Various approximations need to be decided upon in the calculation:

- Class One vehicles used instead of all classes.
- Delays in maturity of accident year data for calculating the index means it is not feasible to use.
- Proxy for proportions of legal costs and claimant benefit come from recent payment year experience, applied to prospective premium. This will be less valid if the scheme fundamentals are changing.





## Efficiency Index

Year	1999	2004
Premium	\$286.00	\$330.80
% of premium to:		
Claimant	67.1%	64.7%
Legal and associated costs	11.0%	10.1%
Insurer	19.5%	19.7%
Administration	2.4%	3.5%
Net GST	Nil	2.0%
	100%	100%



## Recent Trends

- The legal and associated costs proportion has dropped .9% over the period.
- The introduction of the “cost indemnity” reforms in October 2000 have caused more legal costs to be met by the claimant and hence less by the insurer.
- Reforms may also mean an absolute reduction in legal costs.
- Administration levies have risen by 1.1% mainly due to higher levy to Queensland Transport for the vehicle class filing model.
- The GST figure of 2% reflects GST payable on elements other than the “risk premium”.





## Recent Trends

- The resultant efficiency index is 64.7% to the claimant's benefit.
- A comparison with the 1999 index is not valid to the extent that some extra legal costs are now met directly by the claimant.
- An emerging factor on this derivation of efficiency is the extent to which fixed costs remain, despite falling risk premium through the impact of the most recent reforms.



# Severity of Injury Index

- Queensland CTP codes injury on the Abbreviated Injury Scale.
- This coding is regularly audited and has shown significant improvements in accuracy.
- Analysis is on a cost of finalised claims basis.



# Severity of Injury Index

Finalised claim year	Min/Mod Injury Severity codes 1 & 2	Serious Injury Severity codes 3,4,5, & 6 excluding death	Other injury unspecified	Death	
1999-2000	64.4%	32.1%	1.8%	1.7%	100%
2000-2001	65.3%	30.9%	1.3%	2.5%	100%
2001-2002	67.2%	29.3%	1.4%	2.1%	100%
2002-2003	64.3%	33.4%	1.2%	1.1%	100%
2003-2004	67.5%	30.0%	1.5%	1.0%	100%



## **Public Liability Insurance ACCC Review Data 2002 Prospective Premium Basis**

Discounted claims costs (including plaintiff legals)	47%
Underwriting expenses (including brokerage)	24%
Gross Reinsurance cost	13%
Claims handling expenses (including internal legals)	5%
Profit Margin	11%



# How can efficiency be improved?

- Claims Management efficiencies (insurer & lawyer)
- Savings in insurer expenses
- Savings in administration levies
- Fundamental restructure of the scheme