



Institute of Actuaries of Australia

NSW CTP Scheme and Lifetime Care and Support Scheme Update

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NSW CTP & LIFETIME CARE SCHEME UPDATE

1. SNAPSHOT

Number of vehicles	4.3 m
Total premium	\$1,380 m
Claim payments	\$ 980 m

2. UNDERWRITING

Insurer	% market share Dec 2006
AAMI	15.2
Allianz & CIC Allianz	23.9
GIO	7.9
IAG	35.7
QBE	10.5
Zurich	6.8

The market is extremely competitive characterised by price competition in class 1 and for specialised segments of the market, including fleets and small commercial vehicles. There has been heavy advertising by three of the insurers over the last twelve months and over the last three years competition has been demonstrated by market share volatility.

3. PREMIUMS

Premiums vary by class, zone and risk weighting. There are thirty one classes of vehicles. Class1 sedans (79%), class 3c small goods vehicles (13%), and class 10 motorcycles (3%) account for 95% of all registered vehicles.

There are five geographic zones and each class is given a risk relativity, including for each zone where warranted, by reference to claim frequency and average claim size. Relativities are reviewed annually. For example over the last year there were relativity reductions for small goods vehicles in the Metropolitan and Newcastle/Central Coast zone, and for small buses and taxis in all areas. There were relativity increases for large motorbikes in all areas, large and medium sized trucks in all areas and large buses in the Newcastle/Central Coast area. The class1 premium relativities are;

Zone	2006/07 relativities
Sydney metro	100
Outer metro	84
Newcastle/C Coast	79
Wollongong	96
Country	75

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Insurers file for a premium which may be disallowed by the MAA if excessive or if it will not fully fund the liabilities. The insurer may then charge in a range from a discount of 25% for motorists over 55, a discount of 15% for all other owners and up to 50 % maximum loading for the high risk groups. The insurers must show a risk correlation for the factors used in assessing the discount or loading. Each insurer uses a different combination of factors.

The current risk factors used by insurers are: age of vehicle; age of owner; age of youngest driver; comprehensive insurance; no claims bonus; number of collision claims; number of at fault accidents; number of traffic offences; demerit points; vehicle type; number of years drivers licence held; vehicle usage (private or business); new business or renewal.

Premium limits – class 1

Zone	Low price 55+	Low price 30+	High price
Sydney metro	\$281	\$322	\$611
Outer metro	\$248	\$281	\$532
Newcastle/CCoast	\$235	\$268	\$509
Wollongong	\$282	\$320	\$605
Country	\$225	\$257	\$487

These are the lowest and highest prices and give an indication of the spread of prices. The best rate will vary by insurer but for most classes and zones remains within a narrow band. For example in metropolitan class 1 the headline rate varies by insurer from \$322 to \$344.

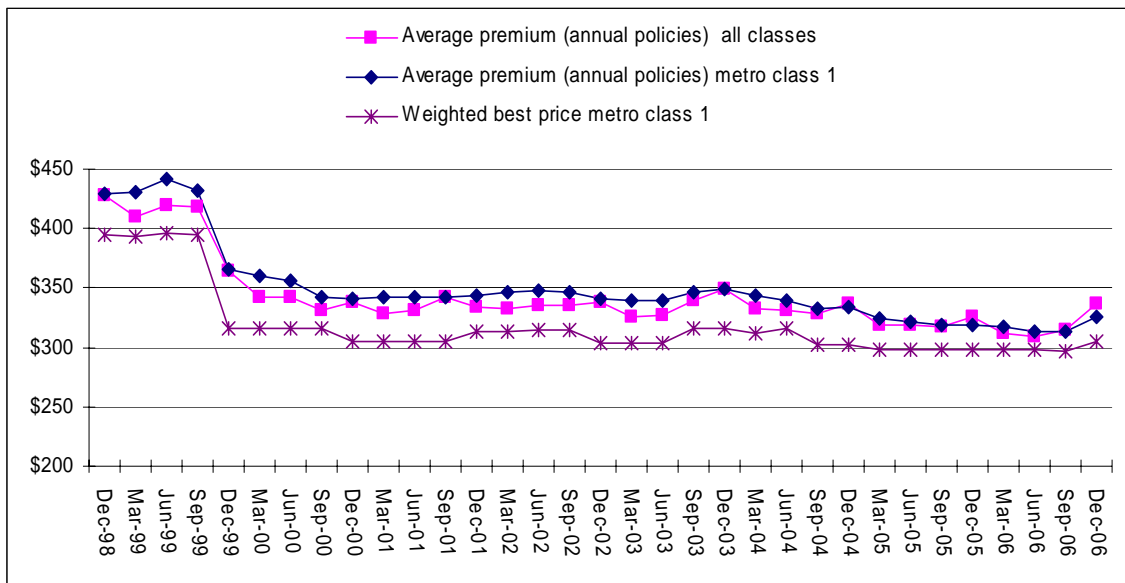
Discount/Loading Spread

The discounts and loading create a spread of prices relative to risk. While there are a large number of rating factors, prices tend to be concentrated at either end, reflecting the chase for good risk at one end and the fact that the high risk group are heavily subsidised and therefore at maximum allowable price at the other end. For example, the MAA has determined that the full risk price for young drivers (under 25) in the Metropolitan area would be around \$960.

Class 1 Discount		Loading	
-25% to < -15%	-15% to < 0%	0% to 30%	30%< to ~50%
21.8%	58.8%	6.1%	13.3%

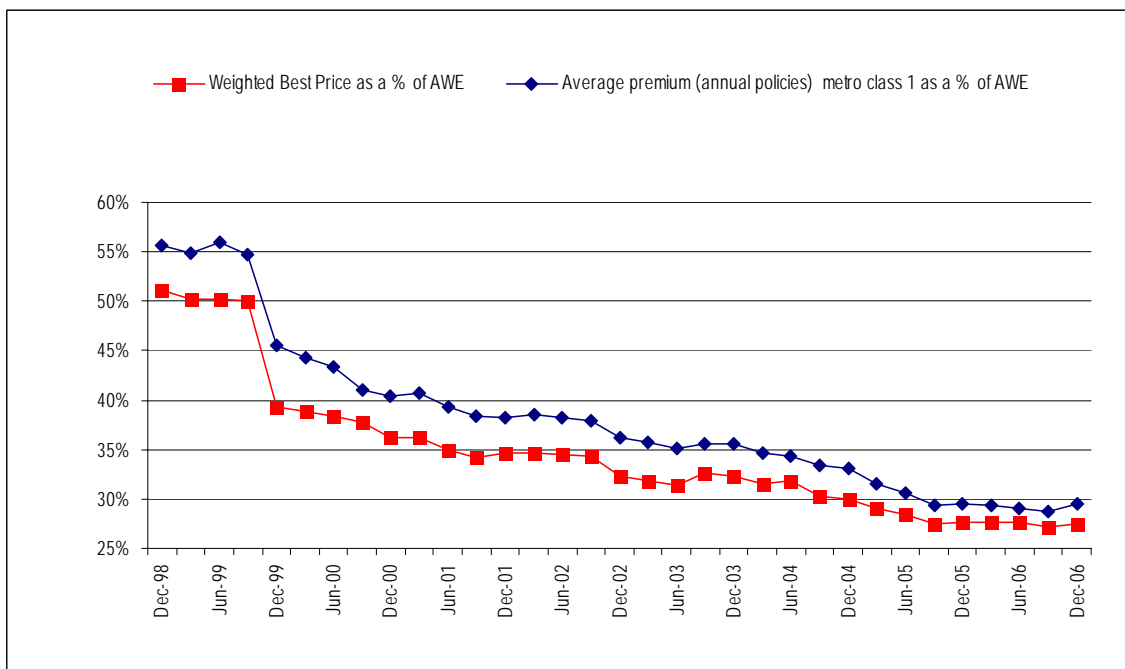
The number of policies in the maximum discount range is about as expected given that there are just over 26% of licence holders older than 55. Similarly at the other end the maximum loading will usually apply to those motorists under 25, who represent just over 14% of licence holders.

Average and best price premium



From 1 October 2006 the price shown is inclusive of LTCS levies to cover cost of the scheme being commenced for children.

Affordability of premium



As a percentage of AWE, CTP premiums are at the most affordable in the scheme's history, even lower than when the scheme was deregulated in 1992.

Consumer advice

The MAA provides a service to help motorists find the best greenslip price. This service is available for class 1 sedans, class 3c small goods vehicles and class 10 motorcycles. In the year to June 2006 39% of targeted motorists accessed these services (up from 27%). There were 97,644 calls to the greenslip helpline and 696,584 visits to the website price calculator. Visits to the website almost doubled compared to the previous year.

4. SCHEME EFFICIENCY

The MAA monitors scheme efficiency as a measure of the premium dollar returned to injured people as compensation. Under the scheme since 1999 the return to claimant has averaged 60% of premium.

The MAA also monitors the proportion of actual payments paid to claimants which has averaged 84% since 1999 (up from 78%) reflecting big reductions in legal and investigation costs.

5. CLAIMS

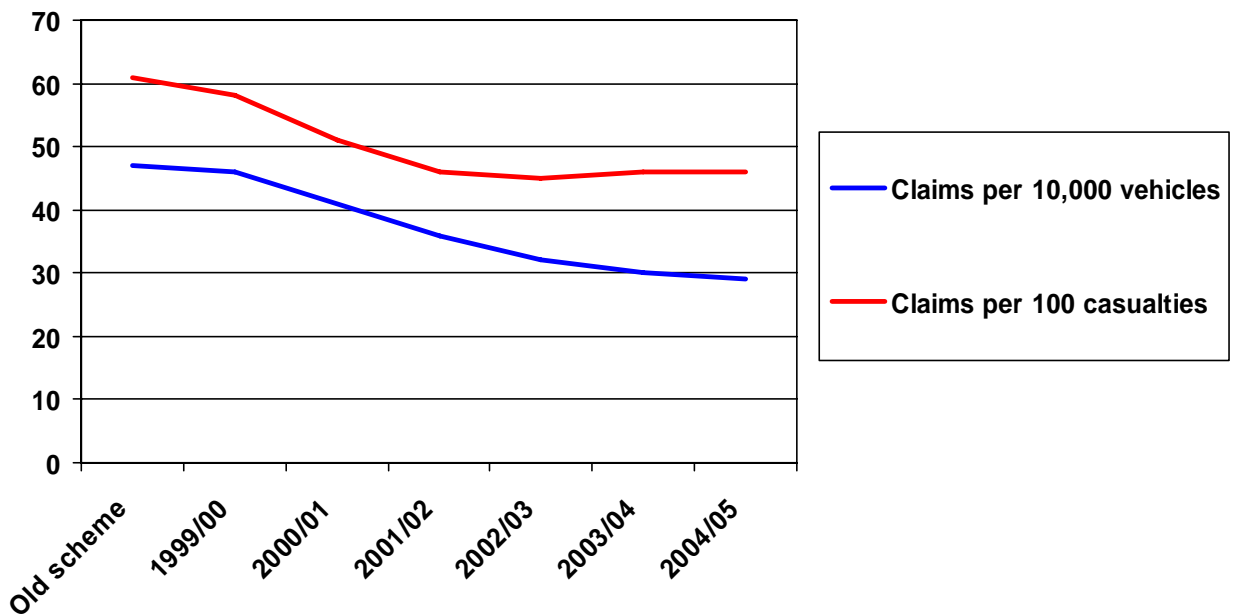
New scheme claim numbers and finalisation rate

Acc year	Full claims	ANFs	Total claims	IBNR	Ultimate claims	% claims finalised	% claims cost paid
1999/00	14,074	2,670	16,744	43	16,787	95	76
2000/01	12,375	2,902	15,277	69	15,346	93	64
2001/02	10,966	2,703	13,669	111	13,780	86	46
2002/03	9,772	2,537	12,309	180	12,489	72	30
2003/04	9,680	2,284	11,964	369	12,333	55	16
2004/05	8,993	2,067	11,060	780	11,840	34	8
2005/06	7,508	2,111	9,619	1,361	10,980	8	
Total	73,368	17,274	90,642	2,913	93,555		

The estimated ultimate claims number is used to calculate claim frequency and propensity to claim. Claim frequency has been dropping since 2002 from around 46 claims per thousand vehicles to just under 30 in the most recent year.

The MAA notes that similar reduction have occurred in other jurisdictions suggesting this is a product of reduced road injury from a combination of safer roads, safer vehicles and improved driving behaviour. This reduction is most noticeable in very low to low severity claims. Factors which may account for this include, 50kph urban zones, increased use of round-a-bouts, school zones and increased enforcement, particularly through red-light and speed cameras.

New scheme claim frequency



Severity mix

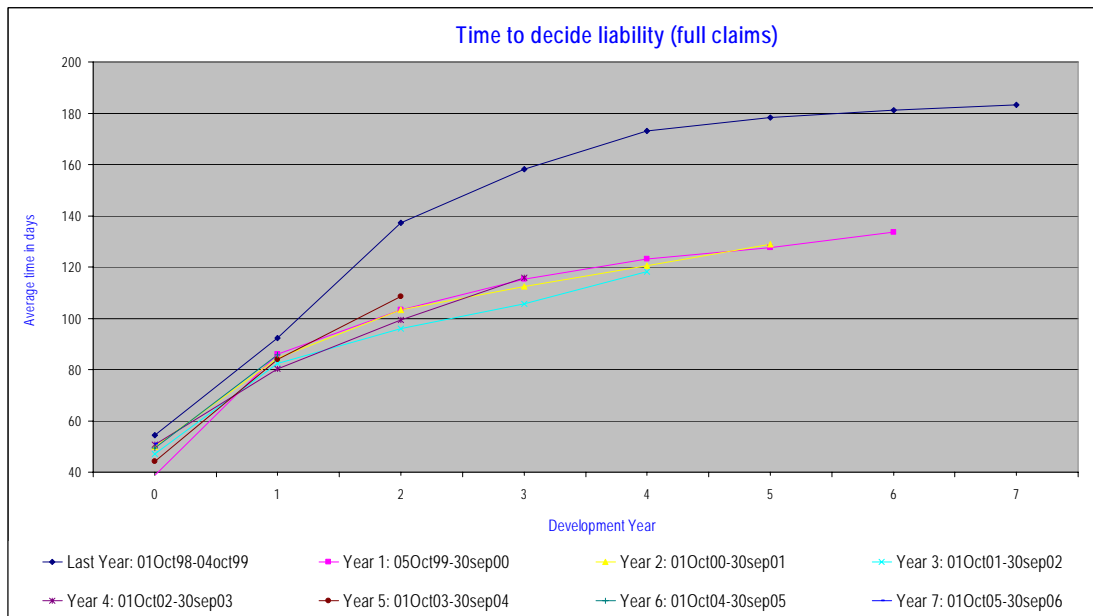
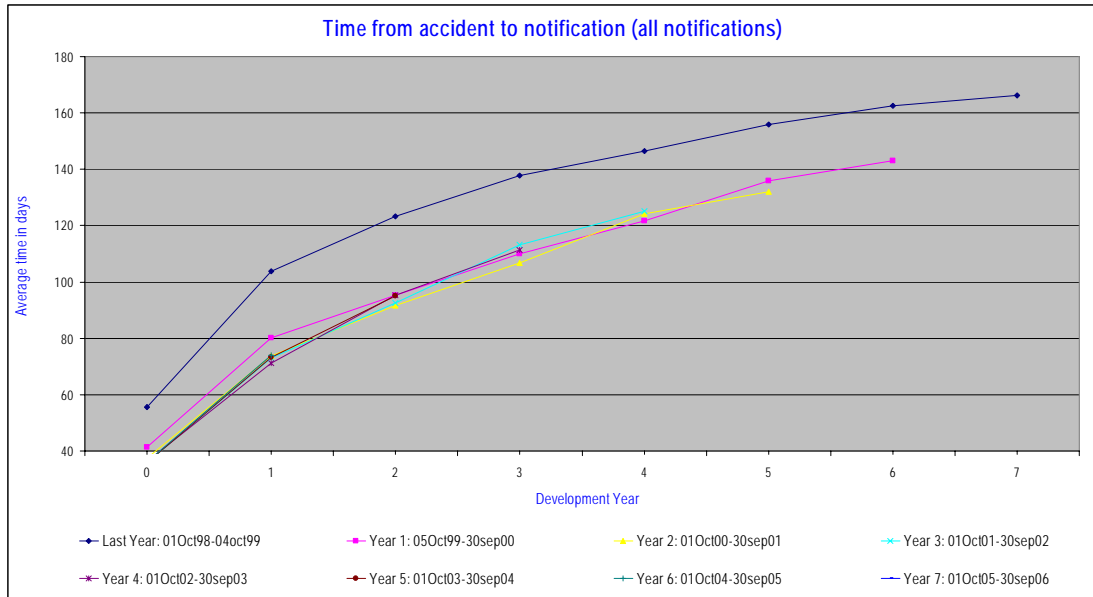
The following graph gives an indication on severity mix based on injury coding. It does not include those matters received and finalised as Accident Notification Forms only and does not include catastrophic injury.

Severity group and injury type	Number claims	Percent claims	Average cost \$	Percent of cost
NISS <3 soft tissue, minor whiplash	16,804	42	11,008	10
NISS 3 – 5 Whiplash and sprains	12,093	30	30,408	20
NISS 6 – 10 arm & leg, minor head injury, torso	5,660	14	62,755	19
NISS 11 – 74 Serious arm & leg, minor to moderate brain other severe injuries	5,142	13	165,410	46

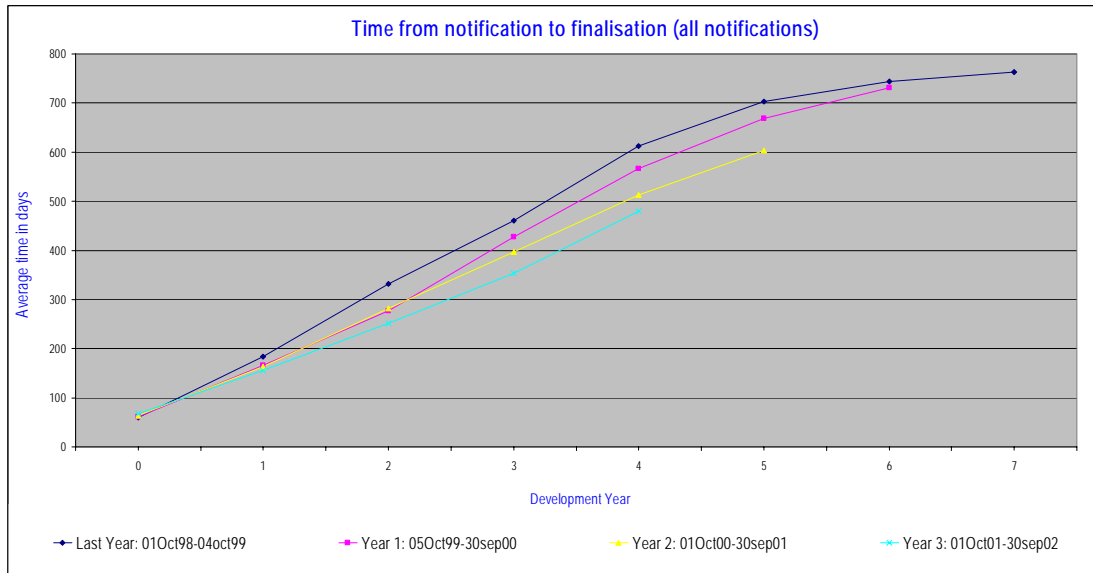
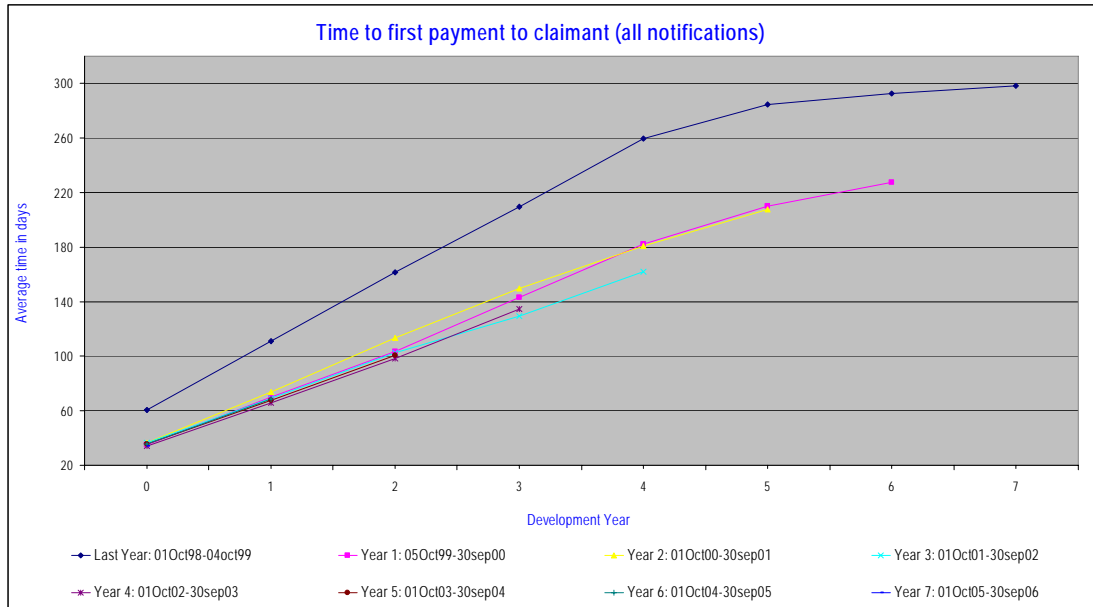
6. SCHEME EFFECTIVENESS

The MAA assesses scheme effectiveness through timing and service delivery as measured by time to notification, time to liability decision, time to first payment to claimant and time to finalisation.

Timing and service delivery



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Timing and service delivery

Comparing the new scheme with the old scheme:

- average time to notification reduced by **14%**
- average time to liability decision reduced by **26 %**
- average time to first payment to claimant reduced by **37%**
- average time to finalisation reduced by **16%**

7. SUPERIMPOSED INFLATION

In October 2006 the MAA commissioned PWC to undertake a detailed report on superimposed inflation. The report was delivered in December and is available from the MAA. The report looked at all new scheme finalised claims and found that the average claim cost has increased 6 - 7% per year over recent years. However, the increase in average claims size in excess of AWE was primarily the result of a more severe injury mix due to decreases in minor claims and has occurred in the context of reduced claim frequency.

On a like to like comparison superimposed inflation is low. That is, claims with similar injuries and other characteristics are receiving similar benefits over time. After putting claims into injury subgroups, there was some evidence of superimposed inflation in some low to moderate severity claims and also some evidence of greater access to future economic loss for these claims, although the amounts received were very low.

There was no evidence of superimposed inflation for large claims and little evidence of increased cost of care.

8. INSURER PROFIT

The MAA is required to report each year on the level of profit allowed by the MAA in the insurer filings and a best estimate of the likely profit to be realised by the insurers.

In reviewing premium filings, the MAA uses a Taylor-Fry methodology which refers to a representative insurer and involves assessing three things.

1. the determination of a suitable quantum of total capital (net assets) for a representative insurer
2. the determination of a suitable allocation of insurer capital to NSW CTP, and
3. the calculation of a profit loading to service to allocated rate of capital.

The indicative range resulting from Taylor-Fry's methodology is a profit of 4.5-6% of gross premium. The MAA accepts that this sets the minimum level of profit to ensure an adequate return on capital and that actual profit levels will be in a range above that as long as the level is justified by the insurer and not considered by the MAA to be excessive. Over the last six years, profit margins ranging from 7.5 to 10% of gross premium have been allowed by the MAA with an industry average between 7.7 and 8.7 percent. The MAA considers this range of profit margin to be acceptable. Over the last 18 months under pressure of competition the filed profit margins have decreased.

The MAA also reports annually on the estimated profit likely to be realised by insurers. The following table represents the current estimates of claim liabilities for each underwriting year and the estimated profit as a percentage of written premium.

Year end 30 Sep	Premiums written \$M	Acquisition costs \$M	Estimated ultimate claim costs \$M ¹	Estimated profit \$M
2000	1,325	200	765	359 (27%)
2001	1,321	198	833	290 (22%)
2002	1,342	185	881	277 (21%)
2003	1,395	197	1,015	183 (13%)
2004	1,476	222	1,062	192 (13%)
2005	1,451	224	1,214	13 (1%)

¹ Discounted and including a 15% prudential margin

The high profit in the early years of the scheme is a function of two things. First, an element of risk premium associated with uncertainty about the effectiveness of the new scheme and second, an expectation of a higher claims frequency than resulted in practice. As confidence in the scheme grew and the frequency trend became more apparent, the average premium has reduced as has the estimated profit.

9. IMPROVED REGULATION

During the last year the MAA has completed a major review of insurer compliance with the MAA Claims Handling Guidelines. A full copy of the review is available from the MAA. The review showed a marked improvement in insurer claims handling as measured against 45 audit criteria. In 33 of the domains the industry recorded a high level of compliance up from 20 domains at this level in the 2004 audit. The majority of the other twelve domains indicated significant improvement on the 2004 results.

Only two areas with lower than 90% compliance did not improve over the time, being determinations of liability and late payment of treatment expenses. The industry has been asked to address these areas.

Having put in place the Guidelines and audit criteria in 1999, the MAA now plans to move away from yes/no compliance measures to encourage insurers to put in place systems for claims management that can be subject to formal quality review.

The review concluded that the industry has been proactive in identifying non-compliant requirements and implementing remedial action plans to improve their compliance performance.

All insurers provide to the MAA 6 monthly reports on complaints. Of the 98 complaints received by the MAA during 2006, 54% of complaints were resolved in favour of the insurer and 46% were resolved in favour of the complainant.

10. HEALTH OUTCOMES

The Treatment Rehabilitation and Attendant Care Guidelines aim to improve insurer consistency in decision making about these areas. Following a comprehensive audit in 2005, each insurer provided a Quality Action Plan to respond to the findings made in their individual audit reports.

The insurers are required to provide to the MAA a report on implementation of the Quality Action Plan and a self assessment of their compliance performance in April 2007.

The MAA also continues to develop treatment guidelines for use by health providers and insurers in managing key injury types. This includes Guidelines for management of Whiplash Associated Disorder, Guidelines for Management of Anxiety following a MVA, Guidelines for the Management of Lower Back Injury as well as a number of other guides for specialised clinical practice.

A major study of the impact of scheme reforms to promote early and better treatment and specifically the introduction of Guidelines for the Treatment of WAD has recently been completed and will be presented to the Accident Compensation Seminar. The key finding is that the recovery rate from whiplash increased by 40% and it cost about \$500 less for each additional recovered person.

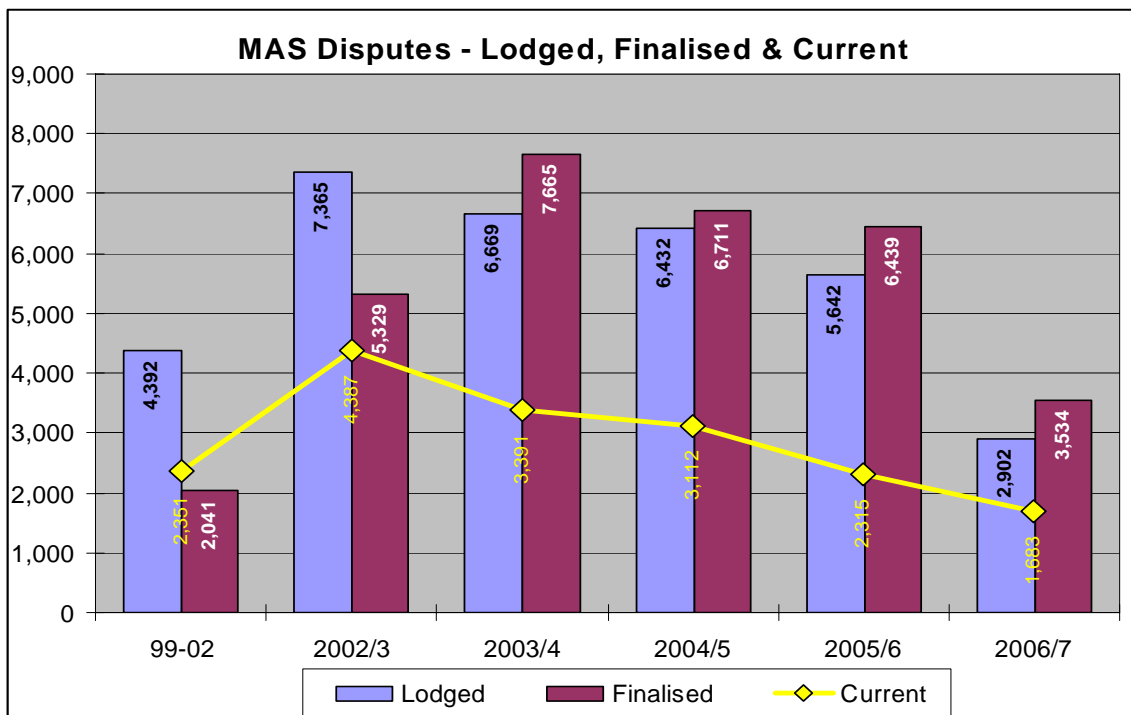
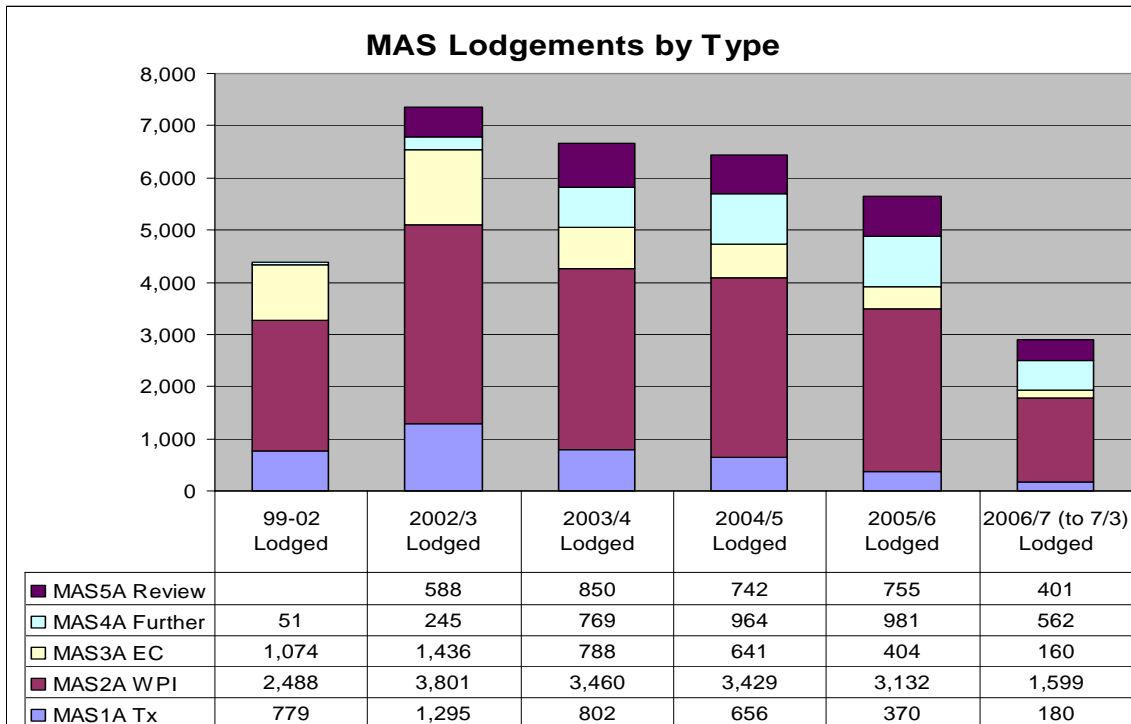
11 MOTOR ACCIDENT ASSESSMENT SERVICE

The Motor Accident Assessment Service comprises the Medical Assessment Service (MAS) and the Claims Assessment and Resolution Service (CARS).

MAS deals with disputes concerning past and future treatment, whole person impairment, injury stabilisation and the impairment to earning capacity from the injury. Assessments are by health experts appointed by the MAA as medical assessors. Decision regarding past and future treatment, whole person impairment and stabilisation are binding on CARS and the court. There is provision to seek a further assessment on grounds of deterioration or new evidence and grounds for an appeal to a review panel if evidence is provided that the assessor has erred in a material respect.

CARS is an independent dispute resolution service for disputed claims. There is no access to court unless a matter has been to CARS. CARS will either assess a claim or exempt the matter allowing it to proceed to court. CARS procedures are intended to be flexible with an emphasis on dealing with matters on the papers or at an assessment conference, rather than a formal hearing. The CARS assessment of quantum is binding on the insurer. The claimant can reject the assessment and proceed to court however significant cost penalties apply in the claimant does not do better at court.

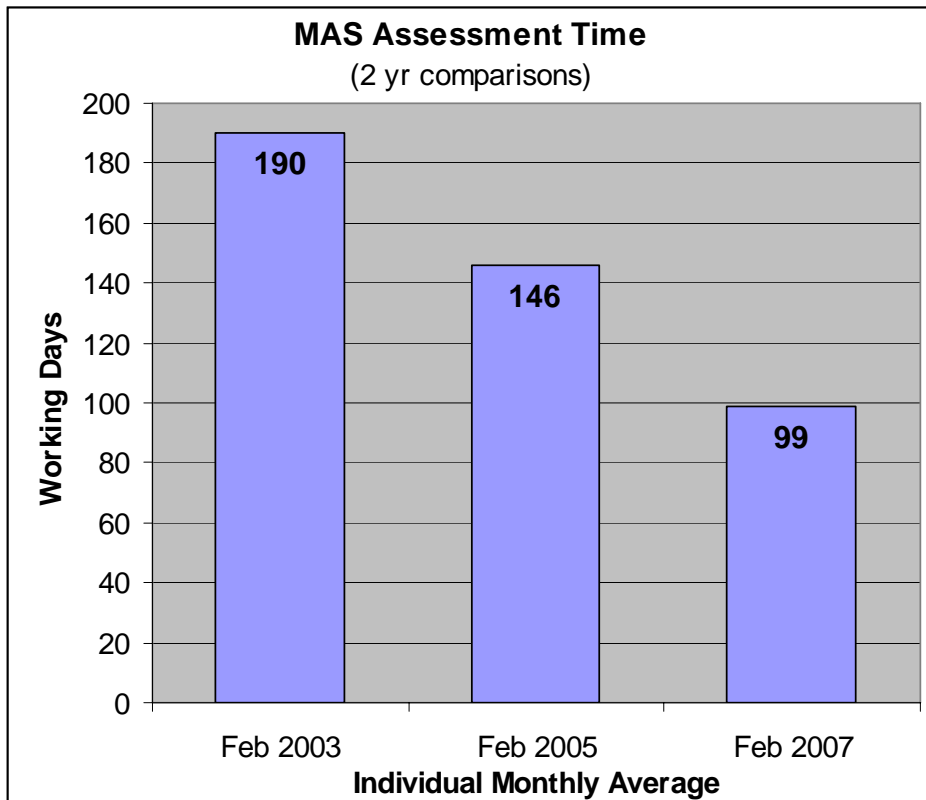
MEDICAL ASSESSMENT SERVICE



MAS – finalisation rates

- 37% finalised within 5 months
- 86% finalised within 9 months
- 93% finalised within 12 months

There has been a significant reduction in assessment times at MAS over the last four years. Down from a peak of 190 working days in Feb 2003 to 100 working days in Feb 2007.

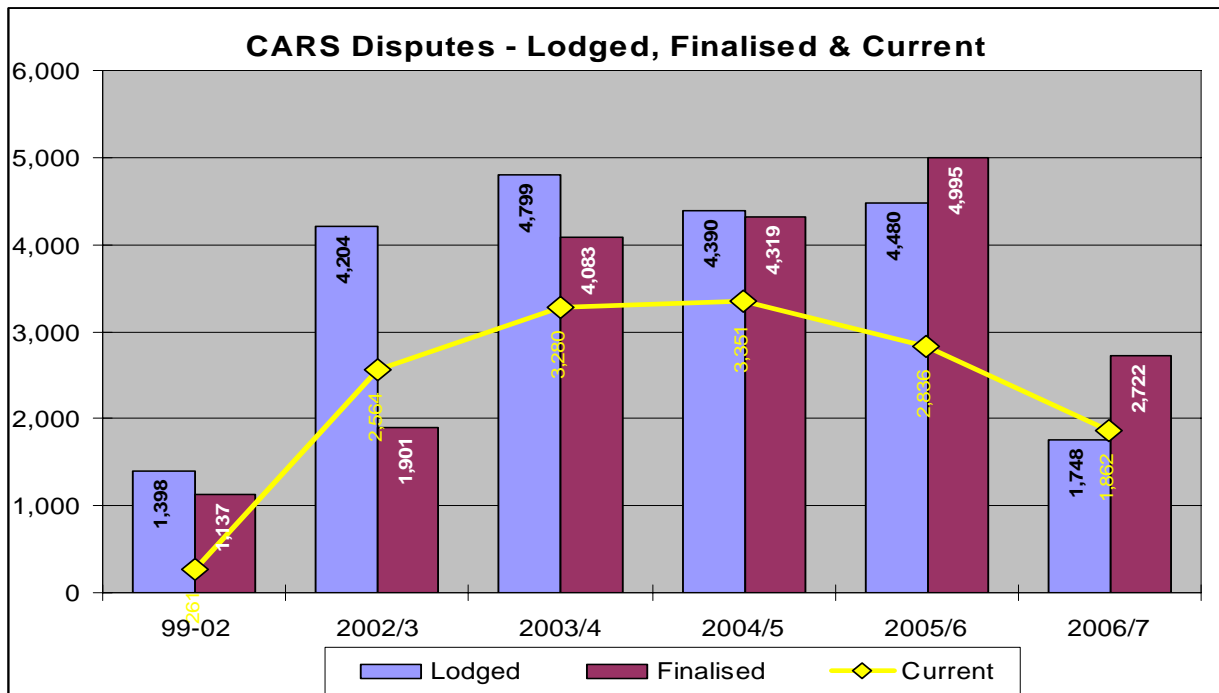
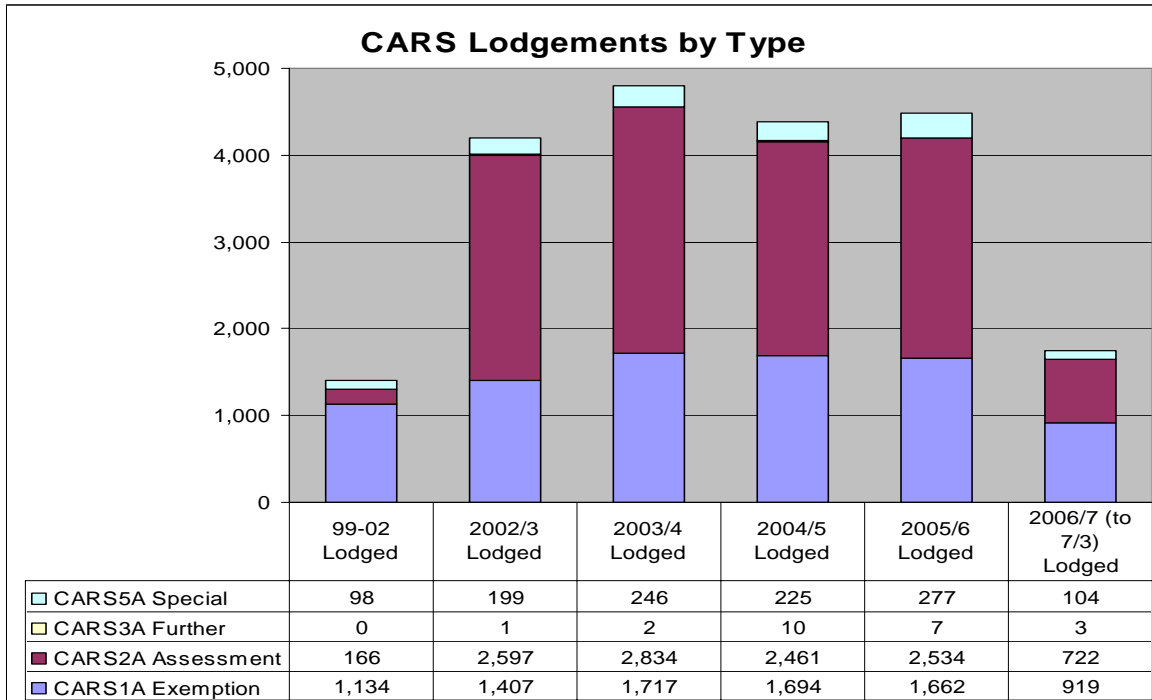


As noted in the graph above there has been a significant reduction in times at MAS over the last two years.

MAS – performance measures

- 96% of MAS applications processed on time (within 10 days before 1 May 2006 - within 5 days since then)
- 84% of medical assessor reports were completed on time (within 15 days of the assessment)
- 81% of certificates/reports met QA standards
- 89% of MAS assessments had no application for review lodged.

CLAIMS ASSESSMENT & RESOLUTION SERVICE



CARS - finalisation rates

The timeliness of matters finalised improves each year. Current finalisation rates are:

- 50% finalised within 5 months
- 67% finalised within 9 months
- 75% finalised within 12 months

CARS – performance measures

- 96% of CARS applications processed on time (within 10 days before 1 May 2006 - within 5 days since then)
- 94% of preliminary conferences were held on time
- 96% of preliminary conference reports submitted were on time
- 63% of reasons and certificates were completed on time (within 10 days)
- 99% of certificates or reasons required no amendment.

12 LIFETIME CARE & SUPPORT SCHEME

The Lifetime Care and Support Scheme commenced on 1 October 2006 for all children under the age of 16 and has been gazetted to commence from 1 October 2007 for all people catastrophically injured in motor vehicle accidents in NSW.

LTCS Levy

The scheme is funded through a levy on CTP policies. The amount of the levy is set to produce income consistent with the liability valuation, currently around \$280 million per year.

The amount of the levy varies by class and zone and is designed to approximate risk of catastrophic injury from that class. For most classes this is very similar to the risk relativity for third party cover but for some classes, particularly motorcycles and buses the levy amount required is higher, and in the case of large motorcycles significantly higher. The full amount of levy required from this class is being phased in over the next 3-5 years.

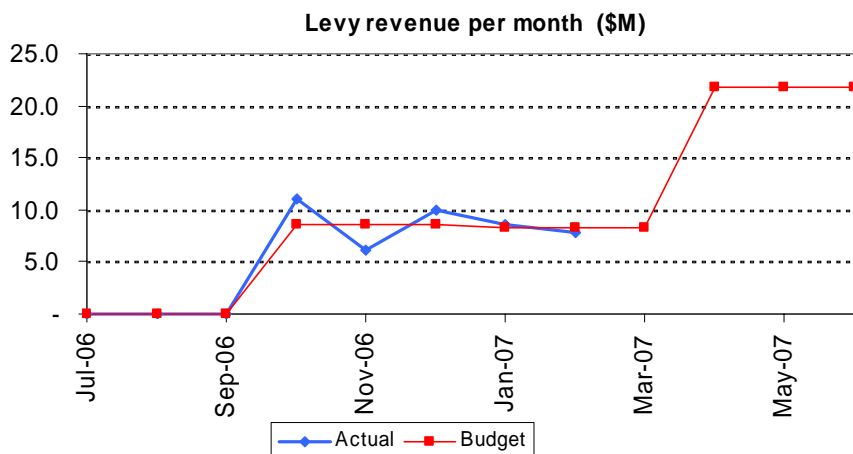
A small levy was included from 1 October to cover the cost of the scheme for children and the full levy is applicable to all policies incepting after 1 April 2007.

The MAA expected the impact of the levy to be an average increase in the amount paid by motorists of around \$20 per policy. In fact because of the high level of competition at present much of this has been absorbed by insurers.

Average premium comparison April to April

Component of Premium	April 2006		April 2007	
	\$	%	\$	%
Insurer risk premium	230	62	190	50
Net reinsurance costs	9	2	5	1
Acquisition costs	31	8	32	9
RTA commission	3	1	0	0
Bulk billing	11	3	0	0
MAA levy	8	2	22	6
Claim handling expenses	17	5	13	3
Profit margin	29	8	23	6
Unearned premium surplus run-off	0	0	-2	-1
LTC levy	0	0	68	18
GST	34	9	26	7
Total	373	100	376	100

From 1 October the RTA levy and bulk billing payment are collected as part of the MAA levy. GST is not payable on the MAA and LTCS levy.



Over the next five years the fund balance is expected to grow to approx \$2 billion with incurred liabilities of \$1.7 billion. The LTCSA has a conservative investment assumption and is targeting growth at 1% above the assumption, which would deliver a significant surplus.

LTCSA Implementation

The LTCSA has made and published Guidelines for the following;

- Injury criteria for entry to Scheme
- Dispute resolution for eligibility to scheme, injury criteria and motor accident and dispute resolution for treatment and care needs
- What services the Scheme will pay, including attendant care and equipment

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The LTCSA has also completed the following actions towards implementation of the scheme:

- Appointment of Disputes Assessors and health professionals to assess treatment and care needs.
- Appointment of Attendant Care Providers
- Development of performance indicators to monitor attendant care service delivery
- Development of outcome measures to monitor and report on Scheme performance and effectiveness of specific health interventions.
- Service provider training in using assessment tools – FIM, WeeFim and CANS.
- Development of a life costing model to be used to determine estimated life budget and cash flow projections.
- Development and evaluation of service models to improve transition of adolescents with a brain injury from paediatric to adult world
- Development of project to examine best practice for delivering school support to adolescents with a brain injury