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CTP Insurance in Australia

A Challenging Business for Actuaries and Management

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Today’s presentation

- The CTP environment in Australia
- Key drivers of CTP experience
- Actuarial contribution
- Challenges for management and actuaries

CTP Insurance

- In Australia motor insurance, the physical damage and bodily injury components are covered by two separate policies
- CTP Insurance is the compulsory third party bodily injury cover attaching to motor vehicle registrations
- Own damage and third party property damage covers are provided by private insurers

Different CTP schemes operate in each State and Territory

Jurisdiction	Privately Underwritten	Common Law	No-Fault
New South Wales	✓	✓	
Queensland	✓	✓	
South Australia		✓	
Western Australia		✓	
Victoria		Serious injuries only	✓
Tasmania		✓	✓
Northern Territory		Non-residents	Residents

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The Regulatory Environment

- Federal Regulator (APRA) oversees general insurance industry
  - Approved Actuary
    - Statutory reserving responsibility
    - Minimum reserving standard (75% sufficiency)
- NSW & Queensland – State regulators
  - Licence insurers for CTP
  - Oversee premium setting
- Trade Practices (Federal)
  - Competitive behaviour
  - Consumer protection

NSW: Pricing Regime (1)

- Premiums must be *fully funded*
  - Best estimate of cost of claims + anticipated investment income
  - Expenses + levies
  - Profit margin to provide “adequate” return on capital + compensation for risk taken
- Certified by an actuary and formally signed off by CEO

NSW: Pricing Regime (2)

- Insurers must “file” in accordance with regulator’s guidelines at least once per year
- Restricted competitive freedom to vary premiums
  - Premiums vary by class of vehicle and district
  - Insurers may use additional rating variables (other than postcode) but maximum discounts and loadings apply
- No scope for “catch up” of past losses – each filing period must stand on its own

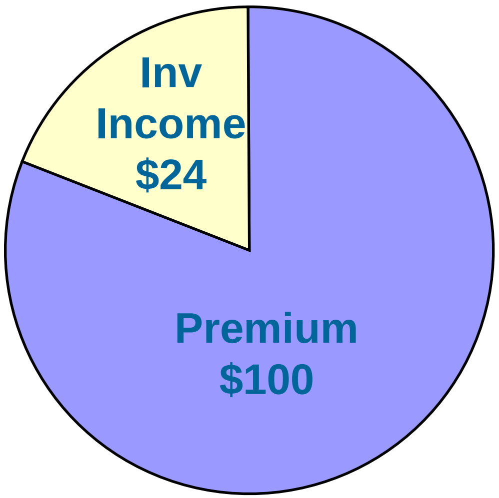
Queensland: Pricing Regime

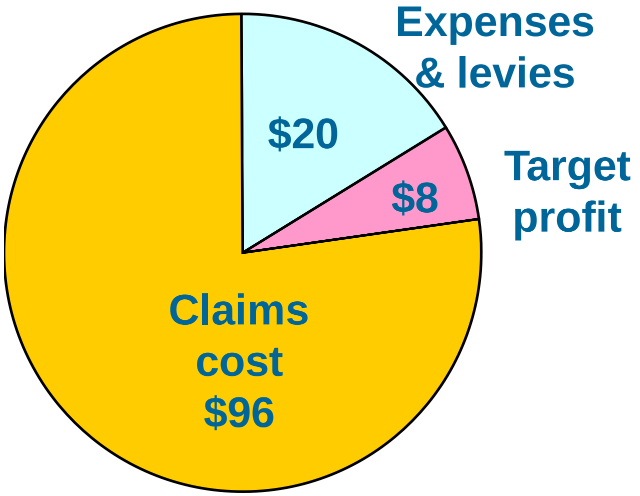
- More centrally controlled premium setting process than in NSW
- Each quarter, regulator (based on independent actuarial advice) sets a floor and ceiling premium
- Each licensed insurer then files at a premium within this range

Where does the premium $ go?

- **Total premium calculation per $100 premium**

Premiums + Investment Income ***pay for*** Claims, Expenses and Profit Margin

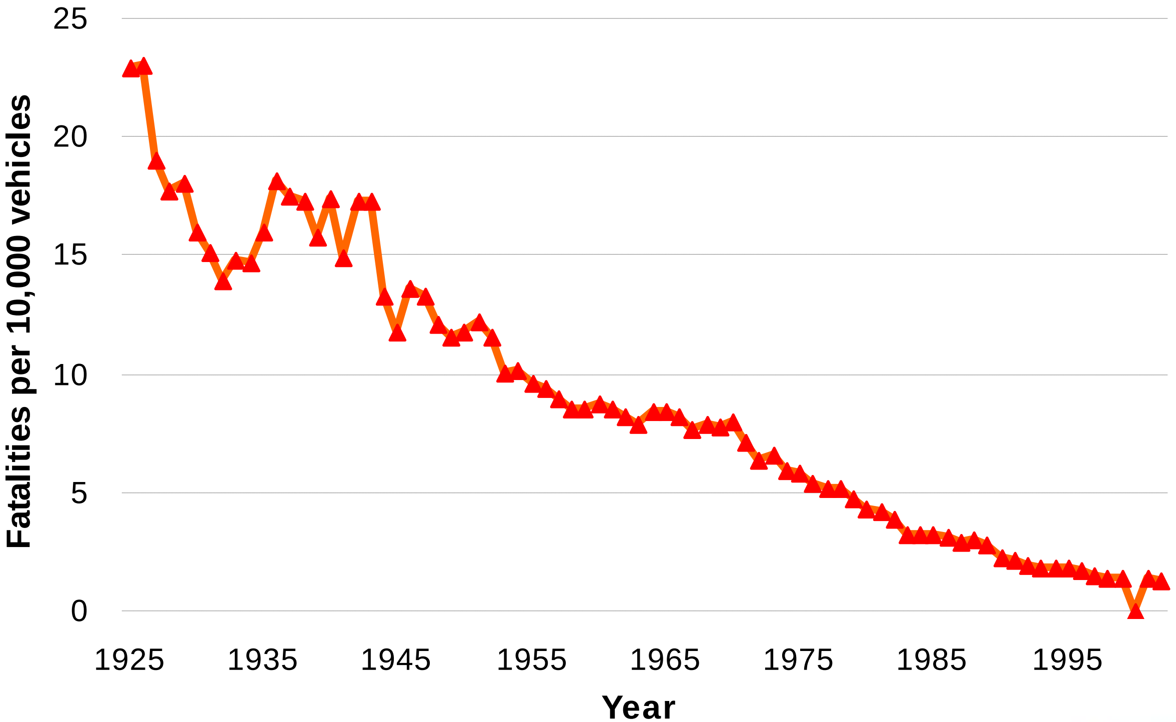




Key Drivers of CTP Experience

Road Casualty Trends

- Establishes underlying base of potential claimants
- Long-term improving trend in fatalities



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Advances in Medical Technology

- Increased likelihood of surviving the accident
- Lengthening post-accident life expectancies for seriously injured
- Comes at a cost due to medical cost inflation

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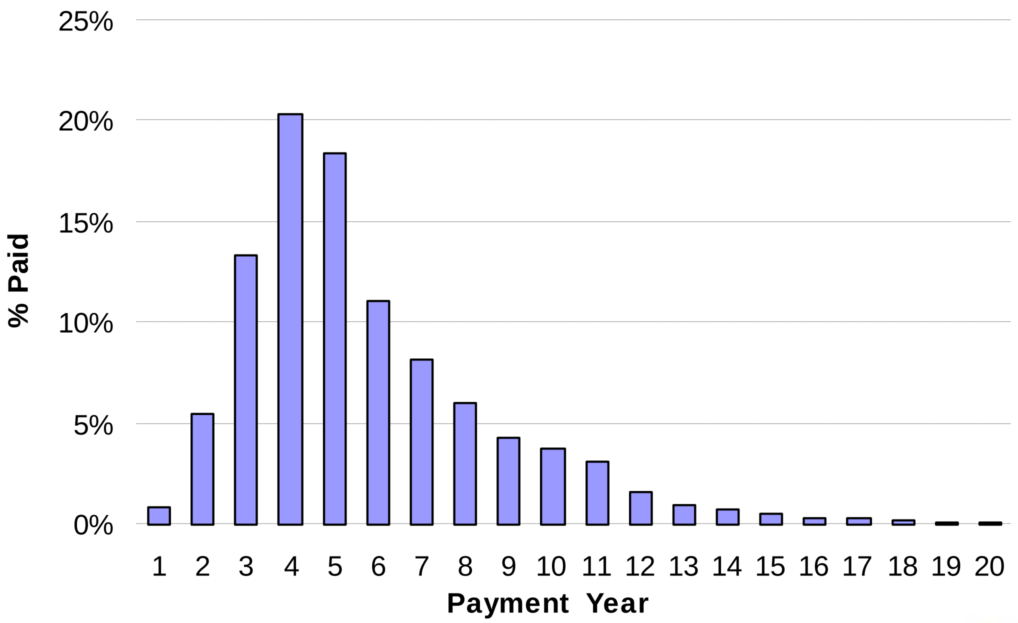
Common Law Environment

- Precedent-based
  - "new" judicial decisions apply to all outstanding claims
  - Compounds potential impact on reported profits
- Inherent delays to settlement
  - Generates a long tail



Attitudes of Key Stakeholders

- "Attractiveness" of making claim for serious injuries is driven by attitudes of
  - Injured Parties
  - Legal Profession
  - Judiciary
  - Government
- The interplay among these groups will determine
  - Propensity for claims to be made
  - Level of claims inflation experienced

NSW Scheme – major reforms

1989 Scheme commenced

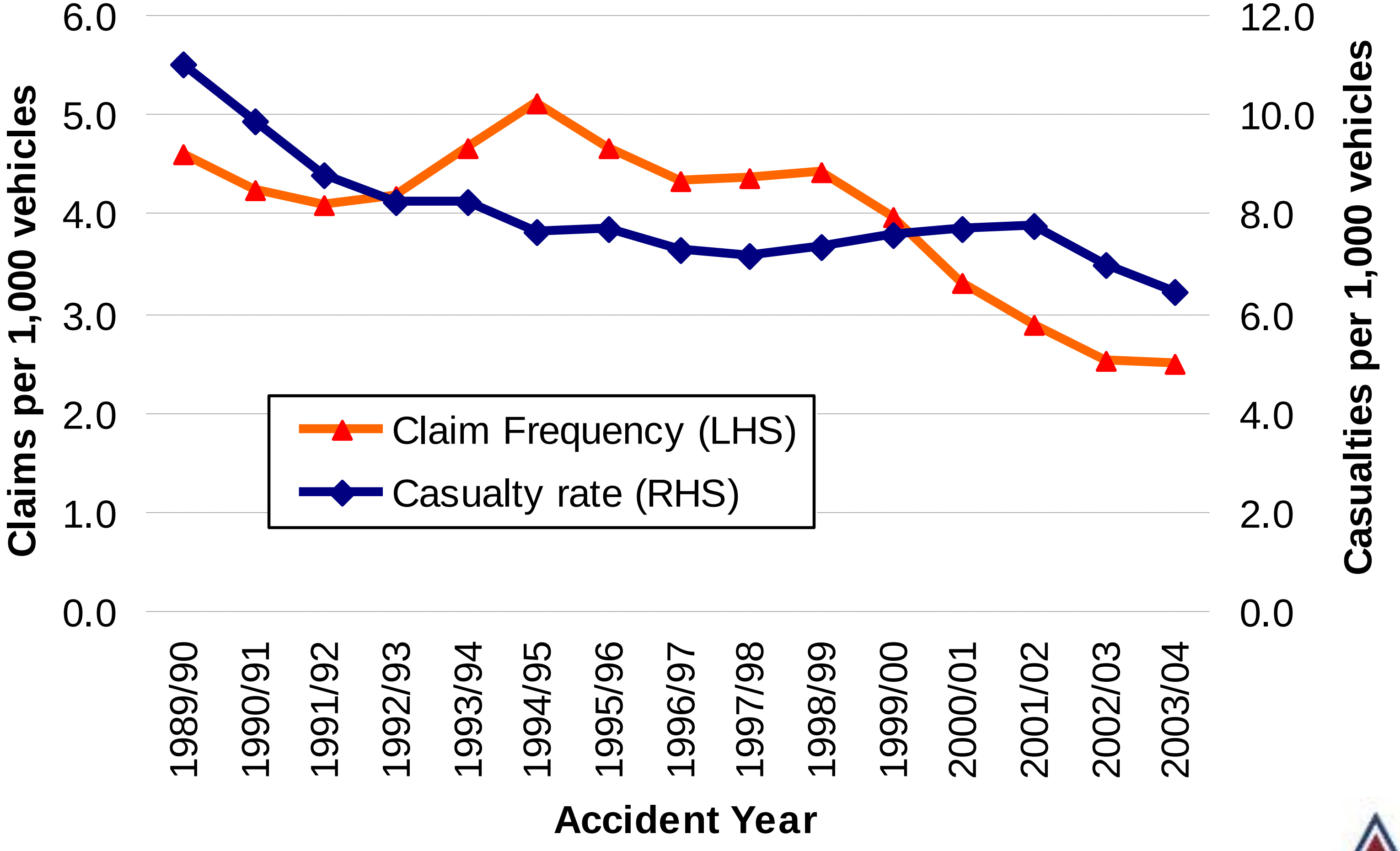
1993 Minor change in wording for access to general damages

1995 Increase in threshold for access to general damges

1998 Minor changes introduced claims handling guidelines

1999
- Major scheme revision
- WPI threshold for general damages
- Legal cost restrictions
- Further rules & guidelines on claims handling

Claim frequency – NSW



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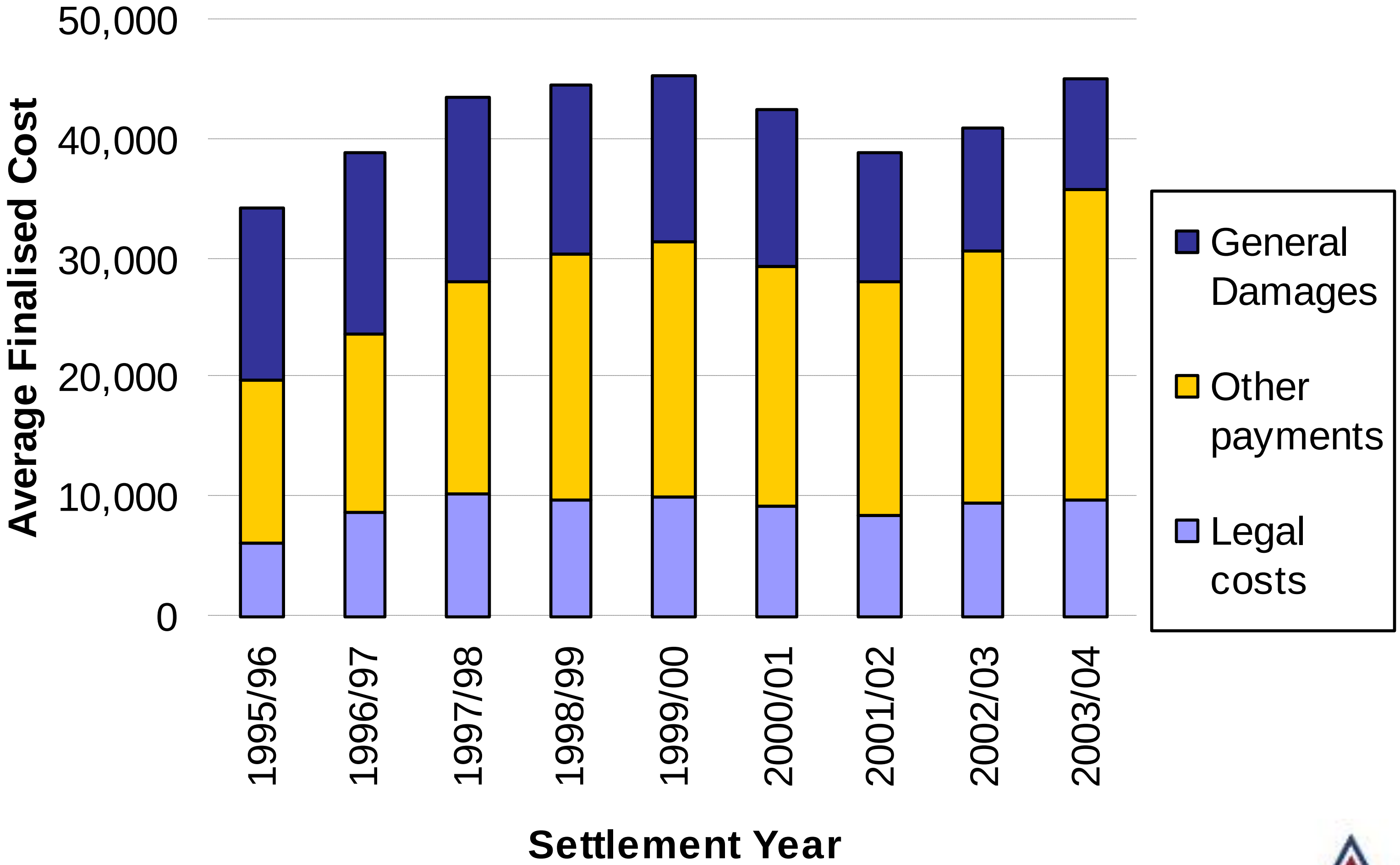
Average settlement sizes – NSW



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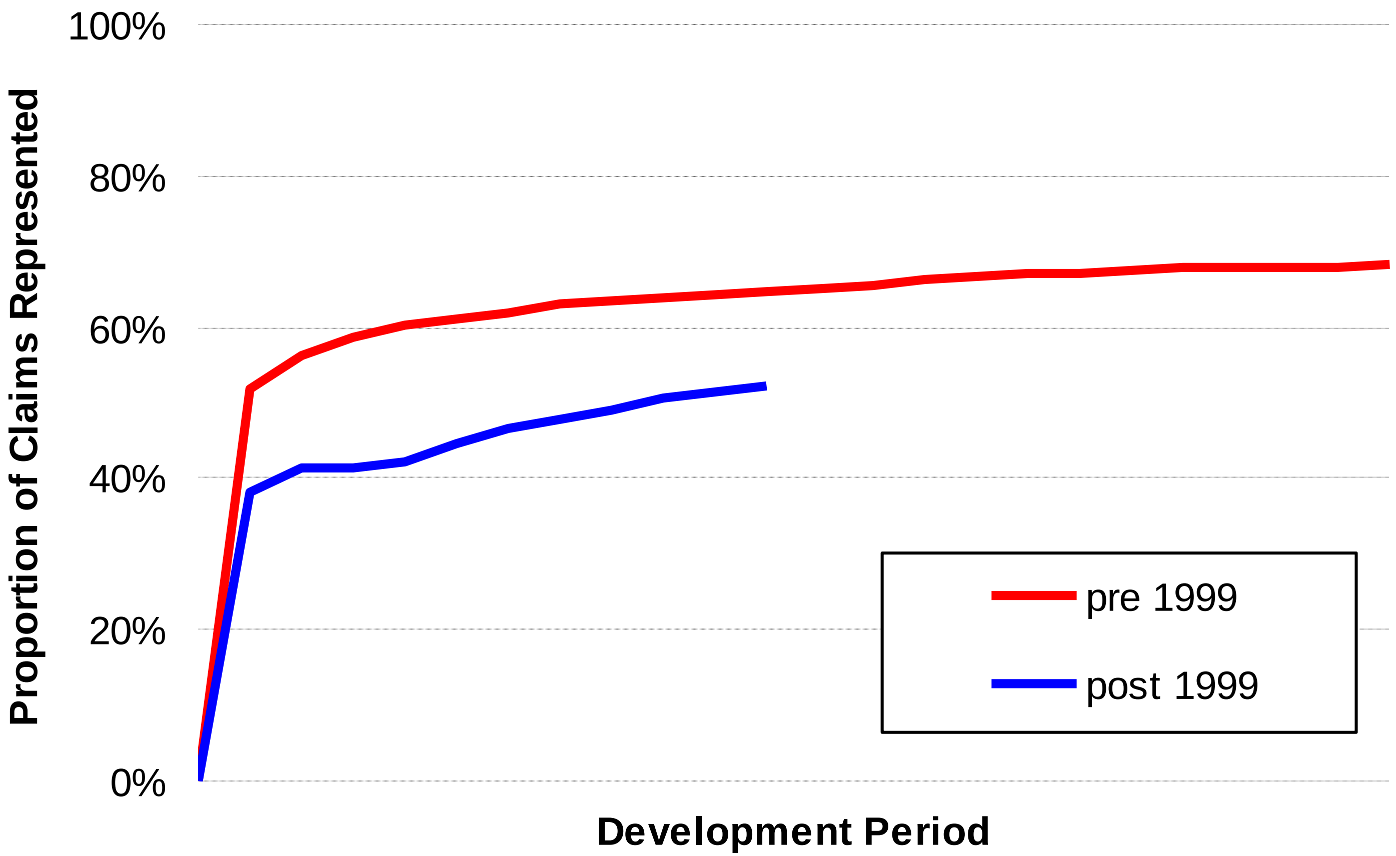
Legal representation - NSW

- **Three year limitation on action**



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The Actuarial Contribution

- Reserving
- Pricing
- Capital Allocation and Target Profit Margins
- Monitoring and portfolio management

Actuarial role in reserving

- Central estimate of liability based on assessment of:
  - ultimate claim numbers
  - average claim size
  - payment pattern for each accident period
  - future claim inflation (wage and superimposed)
  - future investment return
- Estimation of risk margin needed to achieve 75% probability of sufficiency

Reserving: Valuation techniques

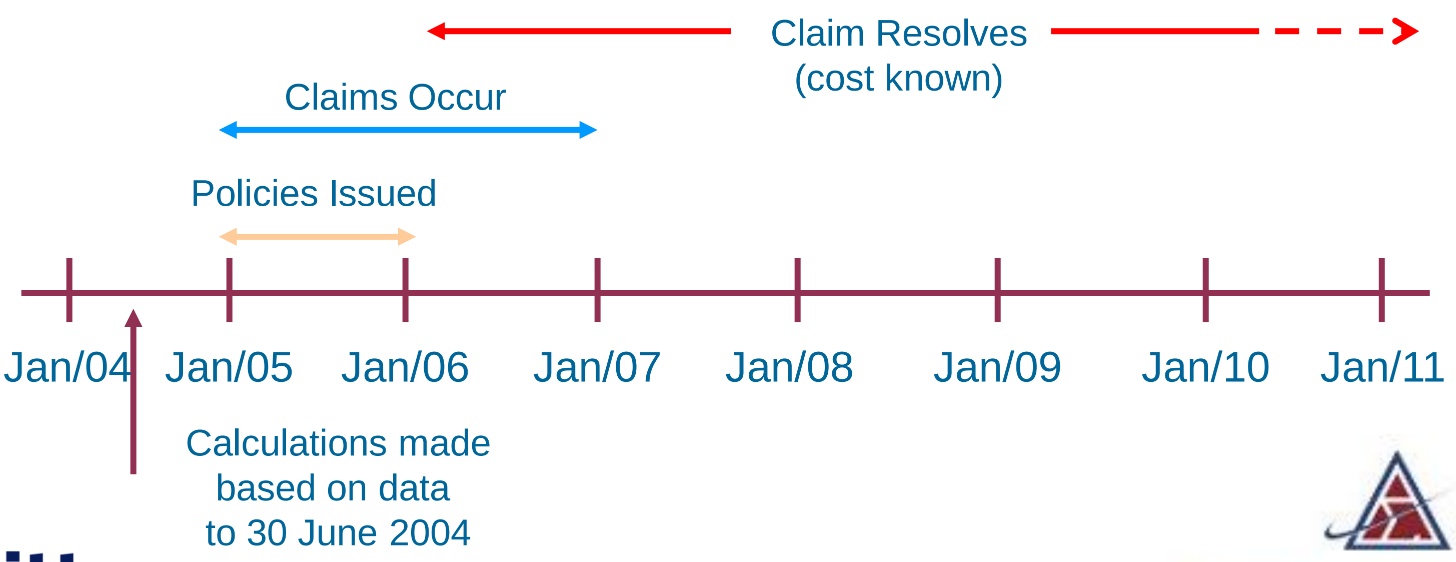
- Traditional actuarial techniques are used:
  - chain ladder and variations
  - projected case estimate development models
  - payments per claim in real or operational time
- Valuation often allows for:
  - separate assessment of large claims
  - segmentation by injury severity
  - different benefit types
- Increasing use of more sophisticated statistical modeling techniques

Actuarial Role in Pricing

- NSW
  - Actuarial sign-off against fully funded test
  - Insurer's experience against industry-wide experience across statutory rating factors
- Queensland
  - Assessing and advising on insurer's own experience against floor/ceiling premiums set by Commission

Mechanics of premium setting

- **Premium setting requires estimates of claims a long way into the future**
- **Fully funded premiums require estimates of –**
  - **claim numbers occurring 2 years ahead**
  - **claim settlements, on average, 3 to 7 years ahead**
- **For example for premiums to apply from 1 Jan 2005 to 31 Dec 2005**



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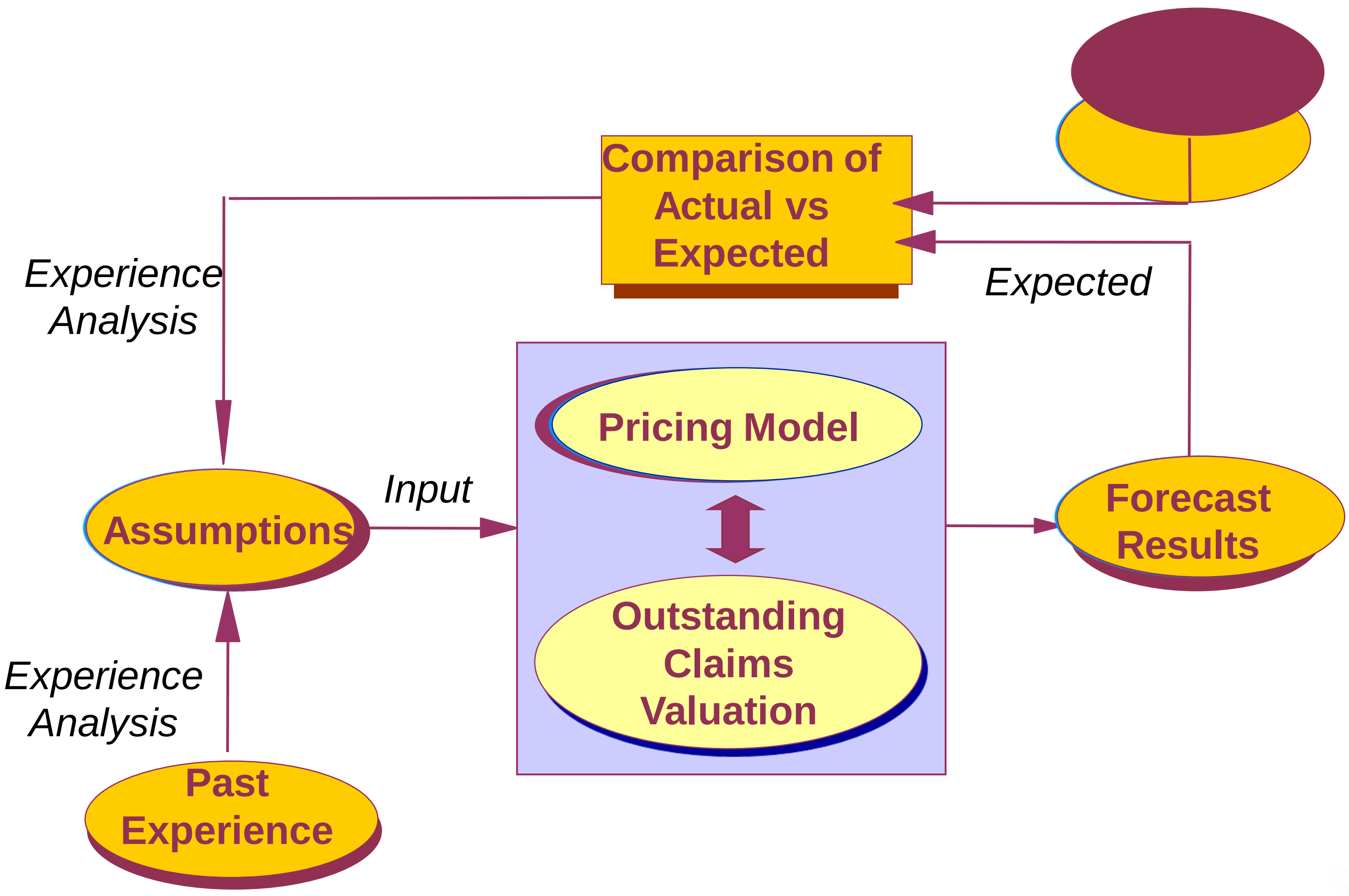
Actuarial control cycle



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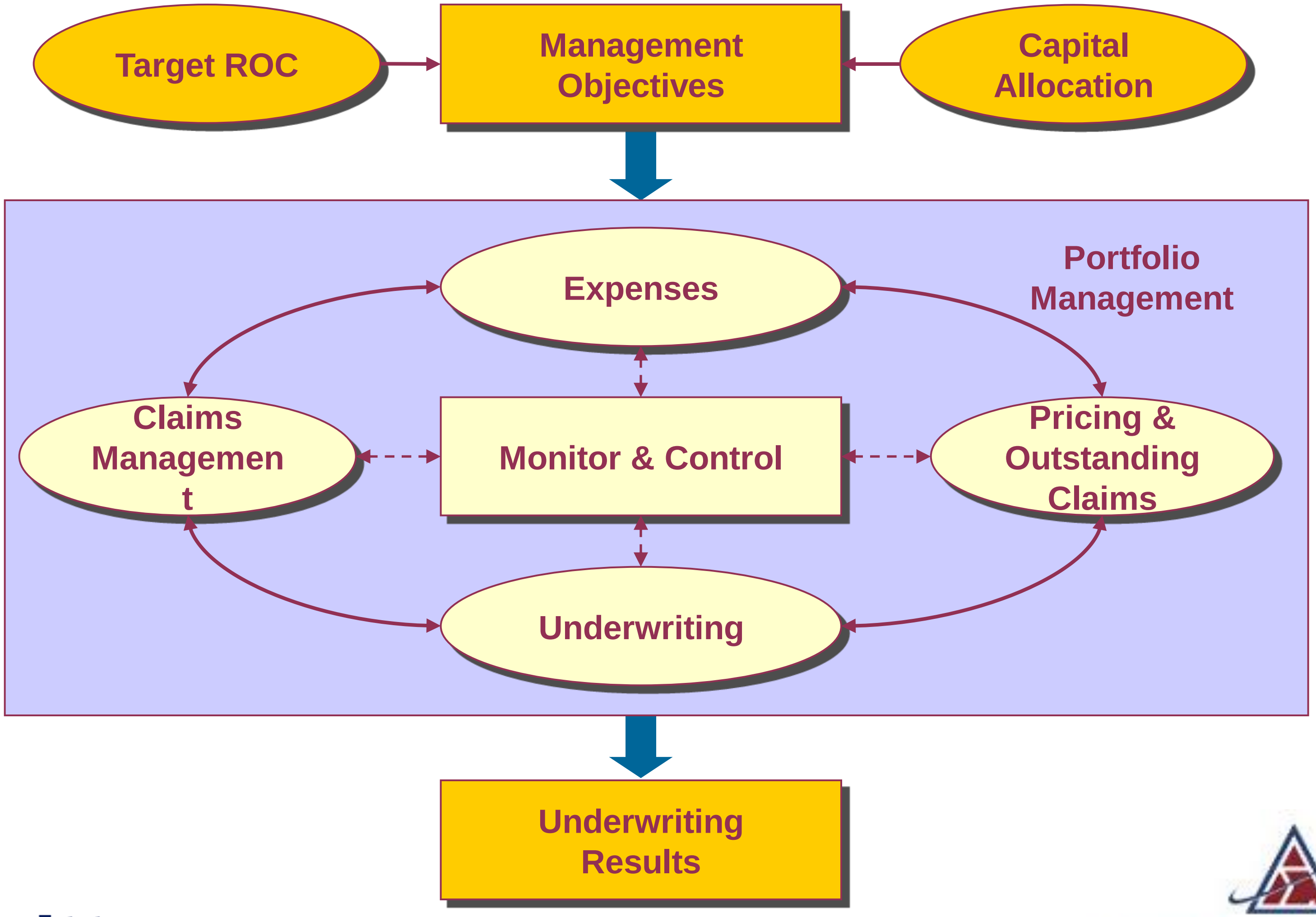
The Wider Actuarial Role



Challenges for Actuaries and Management

- Making high quality data capture a priority
- Not over-reacting to short term aberrations in experience
- Making sound judgements about the impact of scheme changes in advance of mature experience
- Balancing technical considerations with commercial needs