

Updated costing for the Motor Accident Injuries scheme

Chief Minister, Treasury and Economic Development Directorate

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Scope (1)

- ▶ The Chief Minister, Treasury and Economic Development Directorate (CMTEDD) has requested EY to provide an updated costing for the Motor Accident Injuries scheme based on the draft Motor Accident Injuries Bill 2019 (“the Bill”) provided to EY on 12 March 2019
- ▶ This update uses the methodology and assumptions outlined in the original costing work for CMTEDD and the Citizen’s Jury on Compulsory Third Party (CTP) insurance, documented in the EY report “Estimated costs of alternative benefit designs for the ACT Compulsory Third Party (CTP) Insurance Scheme” dated 13 March 2018 (“Costing Report”)
- ▶ This document must be read in conjunction with the Costing Report in order to understand the underlying data and methodologies, as well as any reliances, uncertainties and limitations previously raised (Link to Costing Report: https://www.yoursay.act.gov.au/download_file/1725/683)
- ▶ The main features of the draft Bill that lead to a material change in the costings, compared to the costings as outlined under ‘Model D’ of the Costing Report, are as follows:
 - ▶ Injured children who are receiving treatment and care benefits at 4 years and 6 months after the accident may lodge a common law claim without a Whole Person Impairment (WPI) assessment. The common law quality of life payment for all children regardless of whether they had a WPI assessment will not be based on a scale, although a maximum of \$600,000 for the quality of life component will apply
 - ▶ Injured people (except for children, see above) with a WPI less than 10%, who are receiving income replacement benefits at 4 years and 6 months, may lodge a common law claim if their injury is assessed to have a “significant occupational impact” on the person’s ability to undertake employment
 - ▶ Injured people (except for children, see above) who lodge a common law claim may apply for up to a 20% increase on the scale-based amount (i.e. receive up to 120%) of quality of life damages, to reflect any injuries not taken into account in their WPI assessment or a particular effect on their quality of life

Scope (2)

- ▶ Where a policy of an interstate relevant insurer does not provide benefits on a no-fault basis to an at-fault driver, the Nominal Defendant is the relevant insurer for an application of defined benefits made by an at-fault driver
- ▶ The cost of WPI assessments for injured persons seeking to receive quality of life defined benefits
- ▶ An extension in the income replacement benefits payable to persons approaching or over the pension age, if they were in paid work at the time of the motor accident
 - ▶ For those at or over pension age, income replacement benefits are payable for 2 years after the date of accident
 - ▶ For those approaching pension age, income replacement benefits are payable for 2 years after pension age (subject to a maximum benefit payable period of 5 years after date of accident)
- ▶ Injured people who are not at-fault, who are receiving medical treatment at 4 years and 6 months after an accident, and have been receiving medical treatment continuously during the 2 years and 6 months immediately prior, and are not able to access common law, may negotiate a payment with their insurer for approved future medical treatment costs. This payment is to provide for expected approved medical treatment costs arising after treatment and care defined benefit entitlement ends (generally 5 years after an accident), but only up to 10 years after an accident
- ▶ An update to the estimated MAI Commission Levy provided by the CMTEDD
- ▶ Updates to reflect assumptions in premiums applying from 18 March 2019 (compared to 1 July 2017 in the Costing Report)
- ▶ The results and inherent uncertainties of the updated costing are presented in this document, along with a comparison against the current premium.

Updated costing results

Basis of premiums

- ▶ The updated estimated average premium lies in the range of \$425 to \$510. This is \$14 to \$99 lower than the current scheme premium of \$524.

- ▶ These premiums are on the following basis, they:
 - ▶ Represent the average premium of passenger vehicles
 - ▶ Include GST
 - ▶ Exclude the Lifetime Care and Support levy
 - ▶ Are on a nil-ITC entitled basis
 - ▶ Apply to policies written from 18 March 2019, to enable comparisons to current premiums in the market
 - ▶ Reflect the average premium across all insurers, not what each insurer actually charges in the current scheme or will charge under the scheme proposed under the Bill
 - ▶ Do not allow for the unearned premium surplus expected to occur under the proposed scheme given its lower claims cost compared to the current scheme
 - ▶ Do not allow for a potential “honeymoon period” – i.e. a mature scheme environment is assumed in which all scheme participants are fully aware of their rights and responsibilities and all insurer, service provider and regulatory operational processes are fully functional
 - ▶ The benefits (quality of life damages, loss of earnings, treatment, care, etc.) are shown inclusive of solicitor-client fees which would be deducted from settlements

- ▶ This basis is consistent with that used in the Costing Report, with the exception of updated assumptions applying to premiums from 18 March 2019.

Updated costing results

Comparison against the current scheme

NUMBERS REPRESENT THE MIDDLE OF A RANGE OF ESTIMATES. ACTUAL COSTS FOR EACH HEAD OF DAMAGE COULD BE HIGHER OR LOWER THAN SHOWN.

Average passenger vehicle nil ITC premium effective 18 March 2019 (\$)						
Benefit Type	Defined benefits		Common Law	Proposed Model Total Premium	Current ACT Total Premium	Difference from current
	At-fault	Not At-fault	Not At-fault			
Quality of Life	18	10	22	50		
Loss of Earnings	15	22	34	71		
Treatment - Private medical costs	20	28	11	59		
Treatment - Public hospital costs	8	11	0	19		
Care	2	3	11	16		
Death	4	0	1	5		
Legal Costs - Defendant & Investigation	1	1	9	11		
Legal Costs - Plaintiff costs (Party-Party)	6	6	16	28		
Interstate claims	0	0	32	32		
Total claims cost - range	63 to 85	69 to 93	116 to 156	249 to 333		
Claims handling expenses				23		
Acquisition expenses				24		
Reinsurance				1		
Profit margin				35		
Motorcycle subsidy impact				16		
Nominal Defendant Levies (excl LTCS)				21		
GST				39		
MAI Commission Levy				16		
Average passenger vehicle premium excl LTCS Levy - range				425 to 510	524	-99 to -14

Note: The costs associated with any negotiated payments for treatment beyond 5 years is included in the 'Defined benefits Not At-fault column' for the purposes of this table

Key drivers of change (1)

The key differences in cost between the updated costing presented in this document and the costing outlined under 'Model D' of the Costing Report are as follows:

- ▶ Additional cost for Quality of Life damages at common law: This is a result of the changes that allow:
 - ▶ Injured persons who lodge a common law claim to apply for up to a 20% increase on the quality of life damages calculated according to a scale
 - ▶ Injured persons who are receiving income replacement benefits at 4 years and 6 months to lodge a common law claim if their injury is assessed to have a significant occupational impact on the person's ability to undertake employment
 - ▶ Children who are receiving treatment and care at 4 years and 6 months after the accident to lodge a common law claim without a WPI assessment, with the quality of life payment not being subject to the WPI scale

- ▶ Additional cost for Quality of Life defined benefits: This is to provide for the cost of WPI assessments for those injured persons seeking a quality of life defined benefits

- ▶ Additional costs for Loss of Earnings and Treatment and Care at common law: This is a result of the changes that allow children to access common law without a WPI assessment and injured persons whose injuries are assessed to have a significant occupational impact to access common law as discussed above

- ▶ Additional costs for Loss of Earnings and Treatment defined benefits: This is a result of the changes that allow:
 - ▶ Injured persons approaching or over pension age to receive income replacement defined benefits for up to an additional 2 years if they were in paid work at the time of accident
 - ▶ Not at-fault injured persons under specific conditions, to negotiate a payment* for future medical treatment costs expected to be incurred after the defined benefit period of 5 years (*this payment is not classified as a defined benefit or as a head of damage under common law within the Bill, however it has been included within treatment defined benefits for the purposes of the updated costing presented in this document)

Key drivers of change (2)

- ▶ Additional legal costs: The increased access to common law result in corresponding increases in legal costs for common law claims
- ▶ Additional Nominal Defendant levies: There is an increase in Nominal Defendant levies to fund the changes making the Nominal Defendant the relevant insurer for at-fault interstate drivers where the policy of an interstate relevant insurer does not provide benefits on a no-fault basis to an at-fault driver
- ▶ Update to the MAI Commission Levy: There has been an update to the estimated MAI Commission Levy to reflect the latest cost provided by the CMTEDD

Risks and uncertainties (1)

- ▶ The main sources of risk and uncertainty in this costing are as follows:
 - ▶ There is significant uncertainty associated with actuarial estimates. Estimates of future claims experience (claims numbers and payments) are always inherently uncertain because they depend on the outcome of future events which cannot be forecast precisely. Examples of claims experience that are particularly challenging to forecast include changes to social, economic and legal environments, and behavioral changes that will occur under the proposed scheme design. Therefore, actual claims experience may emerge at levels higher or lower than the actuarial estimates presented in this document
 - ▶ As there is no actual claims experience for the proposed scheme, the costing has been estimated using historical claims experience of the CTP schemes in ACT, New South Wales, Victoria and Queensland. This is on the assumption that the claims experience observed in the reference schemes, after allowing for difference in benefit design, demographics, operations and estimated behavioural aspects, is a reasonable proxy for the claims costs of the proposed scheme. There are many uncertainties associated with this assumption that mean the actual claims experience of the proposed scheme is likely to be different from historical claims experience
 - ▶ The costing of certain not at-fault benefit types rely on the current scheme claims costs assumed by insurers in the February 2019 and March 2019 rate filings. There is inherent uncertainty in any estimate of future claims costs.
 - ▶ In recent years, interest rates have been very volatile. Any reductions in interest rates will reduce the investment income insurers earn on their premiums which is used to pay claims, and consequently may lead to an increase in premiums, and vice versa. It is not possible to predict whether interest rates will increase or fall in the future. Whilst we have made an allowance for future interest rates, we have not considered the impact future changes in interest rates will have on the estimated premiums for the current Scheme or the proposed scheme design. Similar comments apply to assumed wage and price inflation within the costing
- ▶ Other sources of uncertainty outlined in the Costing Report continue to apply (link to Costing Report: https://www.yoursay.act.gov.au/download_file/1725/683)
- ▶ The premium ranges outlined in this document are intended to reflect the uncertainties listed in this document and the Costing Report

Risks and uncertainties (2)

- ▶ There is uncertainty around the premium that will be charged by insurers given:
 - ▶ Premiums will be set by licensed CTP insurers who will operate competitively within the guidelines to be set by the MAI Commission. The premium that will be offered by insurers, individually and in aggregate across the market, may be higher or lower than the estimated premium shown in this document
 - ▶ The costing does not take into account any allowance insurers may be required to adopt to address the possibility of lower costs in the early years of the new scheme due to the “honeymoon” effect
 - ▶ The mix of at-fault and not at-fault benefits for a given vehicle class may differ from passenger vehicles. As a result, the extent of premium savings for other vehicle classes may not necessarily be in the same proportion as for passenger vehicles.

Reliances and limitations

- ▶ As noted in the Costing Report, premiums to be paid by vehicles owners will depend on the details of the regulations and guidelines that will be issued under the new Act, for both benefits and premium system. Any differences in the assumed details of the content of the regulations and guidelines on which the costings are based will result in changes to the estimates of the cost per policy and ultimately the premiums vehicle owners pay
- ▶ In undertaking these costings, reliance has been placed upon the data provided to us by the ACT CTP Regulator, the Victorian Transport Accident Commission, the MAIC, RMS, NSW SIRA and VicRoads. With regards to the ACT data the analysis specifically relies on the accuracy with which insurers have provided their data and classified appropriate payment types and injury severity coding and that this allocation has been accurate over time
- ▶ In general, reliance was placed on but not limited to the information provided. Except where indicated, the information has been used without independent verification. However, it was reviewed where possible for reasonableness and consistency
- ▶ We have performed the work assigned and have prepared this document in conformity with its intended utilisation by persons technically familiar with the areas addressed and for the stated purposes only. Judgements based on the data, methods and assumptions contained in this document should be made only after studying the document in its entirety and in conjunction with the Costing Report, as conclusions reached by a review of a section or sections on an isolated basis may be incorrect. EY staff are available to explain or amplify any matter presented in this document
- ▶ Although we have prepared estimates in conformity with what we believe to be the likely future experience, the experience could vary considerably from the estimates. Deviations from the estimates are normal and are to be expected
- ▶ In accordance with normal professional practice, neither EY, nor any member or employee thereof undertakes responsibility in any way whatsoever to any person other than the ACT CTP Regulator in respect of this report
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