



SA CTP

Market briefing

Review of the risk premium for the 1 January
2024 – 30 June 2024 underwriting period

20 September 2023

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1 Risk premium

\$125.80

▲ \$0.90

The advised risk premium for the 1 January 2024 – 30 June 2024 underwriting period,
excluding inflation and discounting

Taylor Fry estimates the components of the risk premium for the South Australian CTP scheme and advises the CTP Insurance Regulator on these components. The Regulator integrates our advice with its own views to set a floor and ceiling for insurer CTP premiums.

Due to COVID-19 related restrictions, traffic volumes reduced during months with lockdowns which may have led to fewer accidents. We have set our premium advice on the basis that COVID-19 will not have a material impact on claims frequency in the future.

Table 1 shows the risk premium for the 1 January 2024 – 30 June 2024 underwriting period as the product of the advised claim frequency and average claim size, based on data to 30 June 2023. We examine claim frequency and size in detail, separately, in Sections 2 and 3.

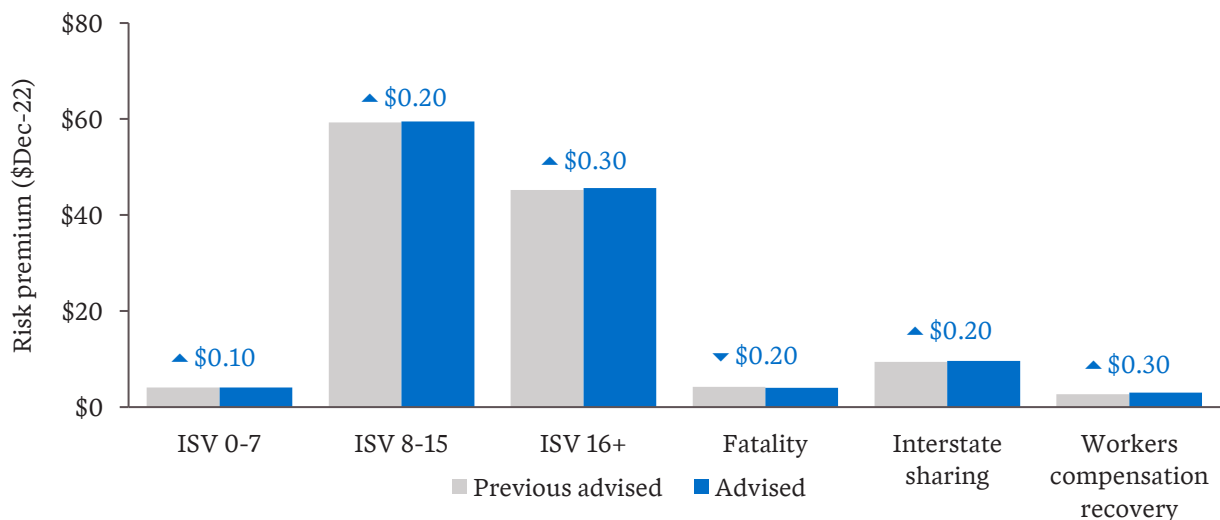
Table 1 – Advised risk premium for 1 January 2024 – 30 June 2024 underwriting period

Claim frequency represents the number of reported claims per annual policy	0.132%
Average claim size represents the expected ultimate cost of a reported claim	× \$95,074
Risk premium is the expected future cost per policy of claims made to insurers	\$125.80

Our advised risk premium is \$0.90 higher than our advised risk premium at the previous annual review (based on data to 31 December 2022).

Figure 1 shows the revised assumptions in six segments based on claimants' Injury Scale Value (ISV), fatalities, interstate sharing claims and workers compensation recovery. Both current advised and previous advised risk premiums are expressed in dollar values as at 31 December 2022 for comparability. The ISV 8-15 and ISV 16+ segments make up 84% of the risk premium.

Figure 1 - Risk premium assumptions by segment



The \$0.90 increase in advised risk premium due to updated assumptions is spread among all segments, except fatalities.

2 Claim frequency by segment

0.132%

▲2%

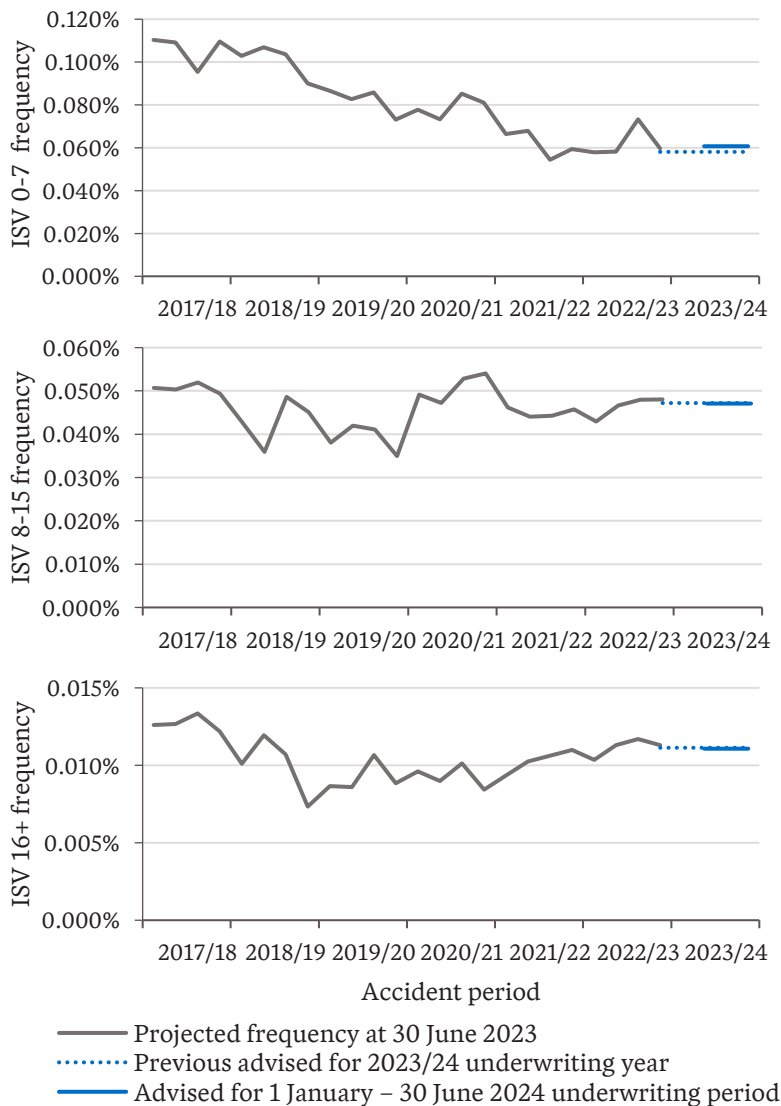
The advised claim frequency for the 1 January 2024 – 30 June 2024 underwriting period

which represents the number of reported claims per annual policy

Taylor Fry reviews the claim frequency by segment at each annual review. Claim frequency is the rate of CTP claims per annual policy.

Figure 2 shows the claim frequency for the three most frequent claim segments – ISV 0-7, ISV 8-15 and ISV 16+. These segments constitute 90% of claims. We compare the current advised frequency for the 1 January 2024 – 30 June 2024 underwriting period to the previously advised frequency for the 2023/24 underwriting year, and the projected frequency for previous periods. We have adjusted claim frequency for accident periods Mar-20 onwards, where relevant, for the impact of reduced traffic volume due to COVID-19 related lockdowns.

Figure 2 - Claim frequency for major segments



Claim frequency has been above expected for recent accident quarters but remains consistent with expectations overall.

Consequently, we advise an **ISV 0-7 claim frequency of 0.061%**, up 4% from a frequency of 0.058% at the previous review.

The claim frequency experience of ISV 8-15 and ISV 16+ claims has been at expectations over the past six months.

Therefore, we advise an **ISV 8-15 claim frequency of 0.047%**, down 1% from the previous review.

We advise an **ISV 16+ claim frequency of 0.011%**, down 1% from the previous review.

The other segments – fatalities, interstate sharing and workers compensation recoveries – contribute 0.014% to the overall frequency (10% of claims).

3 Finalised average claim size

\$95,074

▼ 1%

The advised average claim size for the 1 January 2024 – 30 June 2024 underwriting period

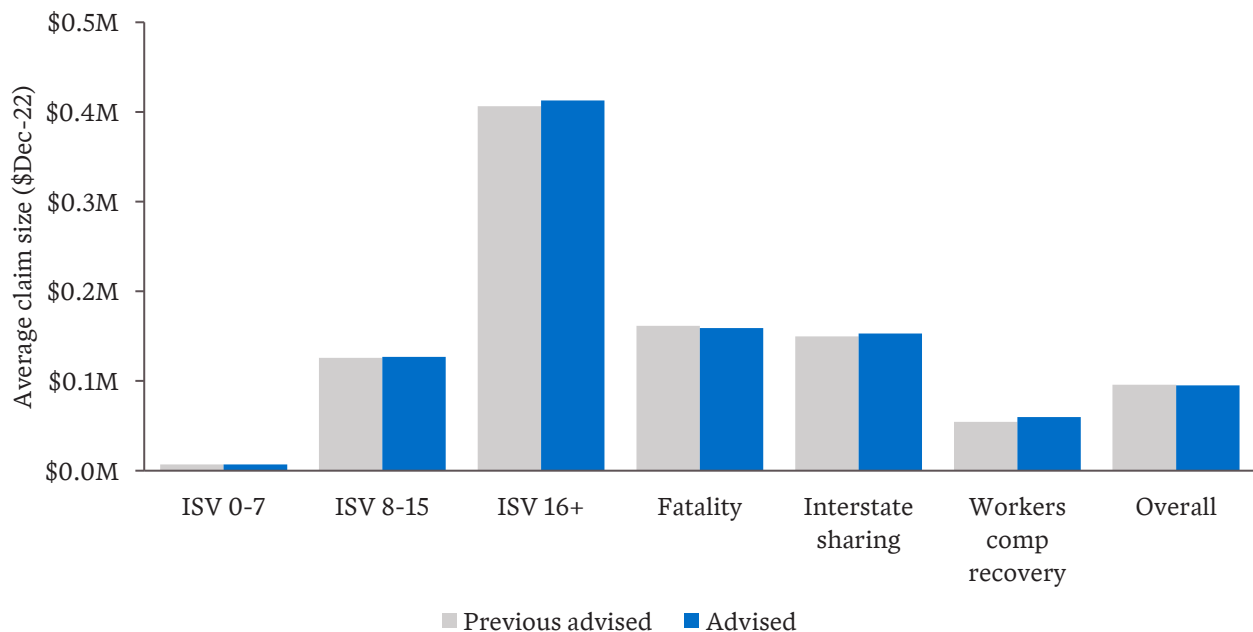
which represents the expected ultimate cost of a reported claim before inflation

Taylor Fry reviews the average claim size by segment based on finalised claims at each premium review. Average claim size is the average amount of compensation a claimant receives.

Our advised average claim size is 1% lower than the previous advice (based on data to 31 December 2022). This decrease is due to a combination of changes in the average claim size within segments, and changes in the relative frequency of different segments, as shown in Figure 3.

Figure 3 compares the advised average claim size for each segment to the previous advised claim size, in dollar values as at 31 December 2022. The size of compensation a claimant receives is highly dependent on the claim's ISV because access to future economic loss benefits and general damages is dependent on ISV.

Figure 3 – Revised average claim size assumptions by segment and overall



We advise a **decrease in overall average claim size** due to a shift towards low severity claims, partially offset by mild increases in the size of high severity claims.

4 Risk premium sensitivities

There is uncertainty in the assumptions underlying our risk premium estimate. There is a risk that the claim frequency and size that ultimately emerge for the 1 January 2024 – 30 June 2024 underwriting period turn out to be different to our assumed values.

Legally represented ISV 8+ claim segments constitute roughly 80% of the risk premium and we have limited experience since privatisation on which we base our estimates. Specifically, there is uncertainty around our estimation of:

- **Frequency:** We continue to observe an increase in legally represented claims coded in the ISV 8-15 segment for accident year 2020/21. We assign partial credibility to this accident year when setting frequency assumptions.
 - If future experience emerges similar to accident year 2020/21, we estimate an impact on the risk premium of **+\$6**.
 - We observe more favourable claim frequency experience in accident year 2021/22. If future experience is similar to 2021/22 levels, we estimate an impact on the risk premium of **-\$4**.

There has also been historical variability in the frequency of legally represented ISV 16+ claims. Frequency was high in older accident years from 2015/16 to 2017/18, and lower in more recent accident years such as 2019/20 and 2020/21. We assign partial credibility to this recent low experience when setting frequency assumptions.

- If future experience emerges similar to the 2015/16 - 2017/18 period, we estimate an impact on the risk premium of **+\$5**.
- If future experience emerges similar to the 2019/20 - 2020/21 period, we estimate an impact on the risk premium of **-\$6**.
- **Average claim size:** Since privatisation, the emerging high duration ISV 8+ claim size experience has been low. We now have additional experience for late finalisations, and we continue to respond by using mostly privately underwritten experience to estimate average claim size for legally represented ISV 8+ claims in the current risk premium review.

There has also been increased uncertainty in our risk premium estimate due to environmental factors. These include:

- **Economic drivers:** Inflation and investment yields have been particularly volatile in the period leading up to the premium setting exercise. This increases uncertainty in the inflated and discounted risk premium.
- **Insurance industry labour force:** The current shortage of claims management expertise may worsen claim cost outcomes in the future.
- **Decreased traffic following the COVID-19 pandemic:** Traffic *per registration* continues to be depressed since 2020. Persistent lower traffic in the future may result in downward pressure on the frequency of high ISV claims, and thus the risk premium.
- **Court decisions:** Recent court decisions, subject to appeal, such as *Raccanello & others v. Motor Accident Commission (2023)*, may worsen claim cost outcomes in the future.

We consider that **our advised risk premium appropriately balances these uncertainties** where empirical evidence is available and is a reasonable central estimate of risk cost using experience up to 30 June 2023.

5 Economic assumptions

0.29%

▲ 0.62%

The economic gap for the 1 January 2024 – 30 June 2024 underwriting period

The difference between the investment return and the projected inflation rates up to the time of claim payment

The risk premium from Section 1 is uninflated and undiscounted. To allow for claims inflation and investment returns, Taylor Fry reviews the timing of claim payments, risk-free investment returns and projected inflation.

Economic gap

The economic gap is the risk-free rate of return *minus* the SA Average Weekly Earnings (AWE) inflation rate. A higher economic gap translates to a lower CTP premium. Table 2 shows the projected risk-free rate of return and the projected AWE inflation rate to determine the economic gap.

Table 2 – Economic gap assumptions

Risk-free rate of return	3.99% (▲ 0.79%) p.a.	We have increased the economic gap in line with the 0.79% p.a. increase in the risk-free rate of return and the 0.17% p.a. increase in wage inflation.
AWE inflation rate	3.70% (▲ 0.17%) p.a.	
Economic gap	0.29% (▲ 0.62%) p.a.	

Superimposed inflation

Superimposed inflation is claim inflation in excess of AWE. We assist the Regulator in adopting a superimposed inflation assumption.

We advise an appropriate **base superimposed inflation rate of 0%–1% p.a.** over the medium term.

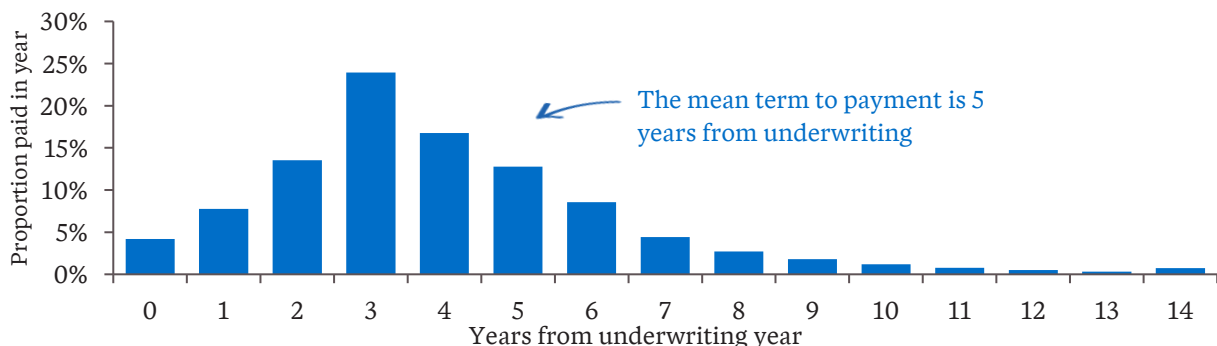
The risk of any honeymoon superimposed inflation related to the 2013 CLA reforms is also low because in the nine years since the reforms observed superimposed inflation has been negative. The Regulator may consider whether current environment – including economic uncertainty – warrants an additional superimposed inflation or allowances more than the base superimposed inflation.

Timing of claim payments

The economic gap and superimposed inflation affect the risk premium more as the timing of claim payments extends further from underwriting.

Figure 4 shows the timing of the claim payments following underwriting.

Figure 4 – Timing of claim payments





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