SA CTP
Market briefing

Review of the risk premium for the 2022/23 underwriting year

27 April 2022

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1 Risk premium

$146.30
▲ $3.10

The advised risk premium for the 2022/23 underwriting year,
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 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 2022/23 underwriting year as the product of the advised claim frequency and average claim size, based on data to 31 December 2021. We examine claim frequency and size in detail, separately, in Sections 2 and 3.

Table 1 – Advised risk premium for 2022/23 underwriting year

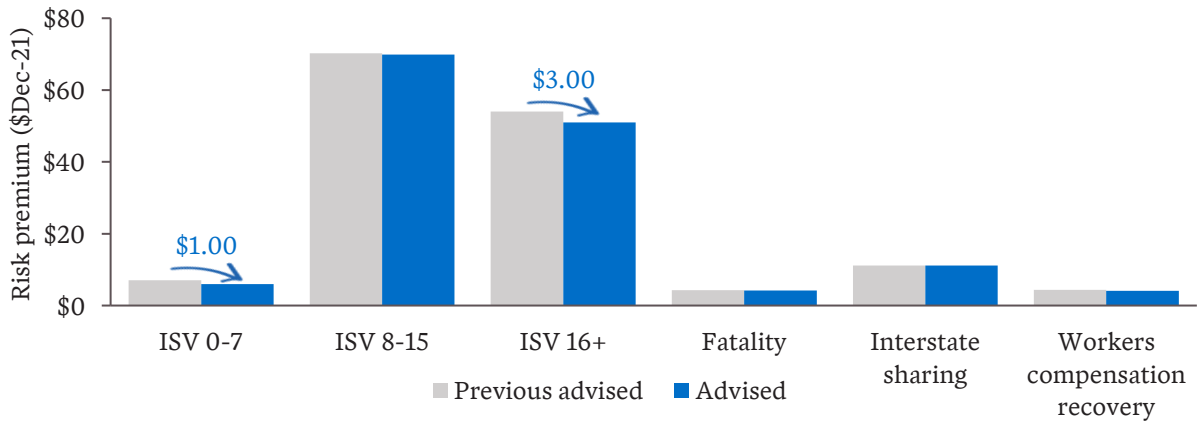
Claim frequency represents the number of reported claims per annual policy		0.154%
Average claim size represents the expected ultimate cost of a reported claim	×	$95,007
Risk premium is the expected future cost per policy of claims made to insurers		**$146.30**

Our advised risk premium is $3.10 higher than our advised risk premium at the previous annual review (based on data to 31 December 2020) because:

- ▲ $7.70 due to inflation over the year to 31 December 2021
- ▼ $4.60 due to updated assumptions for claim frequency and average claim size.

Figure 1 shows the revised assumptions in six segments based on claimants' Injury Scale Value (ISV), fatalities, interstate sharing claims and workers compensation recovery. The previous advised has been adjusted to include inflation in the year to 31 December 2021. The ISV 8-15 and ISV 16+ segments make up 83% of the risk premium.

Figure 1 - Risk premium assumptions by segment



The $4.60 decrease in advised risk premium due to updated assumptions is driven by ISV 0-7 and ISV 16+ segments.

2 Claim frequency by segment

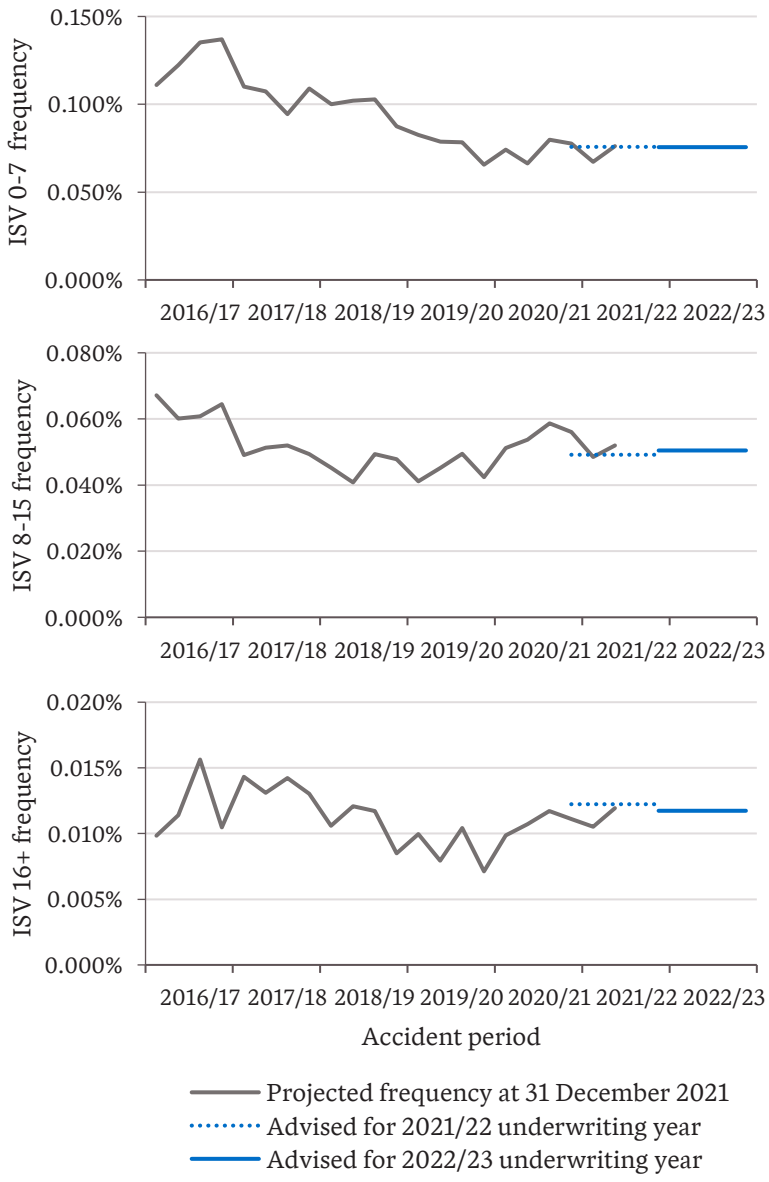
0.154%
~0%

The advised claim frequency for the 2022/23 underwriting year
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 advised frequency for the 2022/23 underwriting year to the advised frequency for the 2021/22 underwriting year (previous review) 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.

Figure 2 - Claim frequency for major segments



We advise an **ISV 0-7 claim frequency of 0.076%**, unchanged from a frequency of 0.076% at the previous review.

We observed more movement into the ISV 8-15 segment than was previously anticipated for older accident periods. Consequently, we advise an **ISV 8-15 claim frequency of 0.051%**, up 3% compared to a frequency of 0.049% at the previous review.

We advise an **ISV 16+ claim frequency of 0.012%**, down 4% from the previous review.

The other segments – fatalities, interstate sharing and workers compensation recoveries – contribute 0.016% to the overall frequency (10% of claims).

3 Finalised average claim size

$95,007
▲ 2%

The advised average claim size for the 2022/23 underwriting year
which represents the expected ultimate cost of a reported claim

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

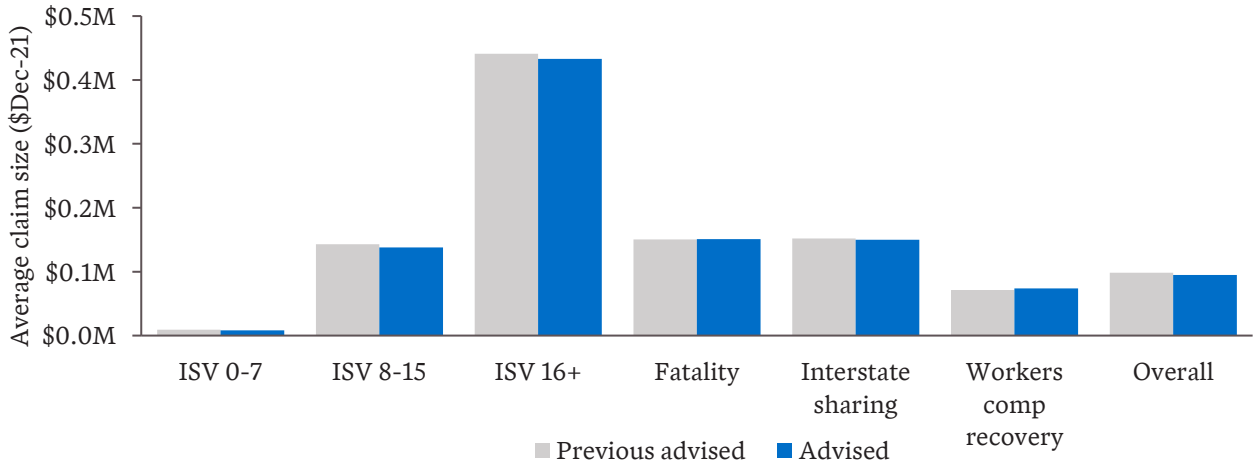
Our advised risk premium is 2% higher than our advised average claim size at the previous annual review (based on data to 31 December 2020) because:

- ▲ **5%** due to inflation over the year to 31 December 2021
- ▼ **3%** due to revised assumptions for average claim size.

The 5% increase due to inflation affects all segments equally. The 3% decrease due to revised assumptions is a mixture of changes in the relative frequency of segments (as seen in Section 2) and the average claim size within segments, as shown in Figure 3.

Figure 3 compares the advised average claim size for each segment to the previous advised adjusted to include the +5% inflation in the year to 31 December 2021. 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 average claim size for ISV 0-7, ISV 8-15 and ISV 16+ segments in response to reductions in observed claim finalisation sizes after adjusting for inflation.

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 2022/23 underwriting year turn out to be different to our assumed values.

The privately underwritten environment has a short history and relatively few finalisations which leads to more uncertainty than for a mature scheme. With one more year of experience, there is less uncertainty than at the previous review but it still exists. One significant source of uncertainty around the risk premium is legally represented ISV 8-15 claims.

Legally represented ISV 8-15 claims segments constitute roughly half 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 observed an increase in legally represented claims coded in the ISV 8-15 segment for accident year 2021. This recent year is immature and likely to change, so we give it low credibility when setting frequency assumptions. If experience for the 2021 accident year deteriorates further and this experience continues in future, we estimate that the impact on risk premium will be **+$11**.

  We have mature experience for accident years 2017/18 and 2018/19 and these years are emerging lower than our current advice. If future experience is similar to 2017/18 and 2018/19 levels, we estimate the impact on risk premium to be **-$7**.

- Average claim size: The emerging late finalisation average claim size experience is lower than expected for legally represented ISV 8-15 claims from privately underwritten accident periods. We have responded to this partly in the current risk premium review because we have limited experience of long duration claims. If future experience continues to be as low as the emerging privately underwritten experience, we estimate the risk premium impact to be **-$5**.

Table 2 summarises the impact of uncertainty for ISV 8-15 legally represented claims.

Table 2 – Uncertainty scenarios for ISV 8-15 legally represented claims

Scenario	Risk premium impact
Future frequency experience is similar to 2021	▲ $11
Future frequency experience is similar to 2017/18 & 2018/19	▼ $7
Late finalisation claim size experience is similar to private experience	▼ $5

We consider that our advised risk premium appropriately balances these uncertainties and is a reasonable central estimate of risk cost using experience up to 31 December 2021.

5 Economic assumptions

-0.84%
▲ 0.14%

The economic gap for the 2022/23 underwriting year
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 3 shows the projected risk-free rate of return and the projected AWE inflation rate to determine the economic gap.

Table 3 – Economic gap assumptions

Risk-free rate of return	**2.27%** (▲ 0.88%) p.a.
AWE inflation rate	**3.10%** (▲ 0.74%) p.a.
Economic gap	**-0.84%** (▲ 0.14%) p.a.

We have increased the economic gap in line with the 0.88% p.a. increase in the risk-free rate of return and the 0.74% p.a. increase in wage inflation.

Superimposed inflation

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

The 2013 tort reforms make it difficult to use South Australian CTP experience to assess superimposed inflation. Superimposed inflation experience has been benign in CTP schemes in New South Wales and Queensland, averaging 0%-1% p.a. over the last 10 years.

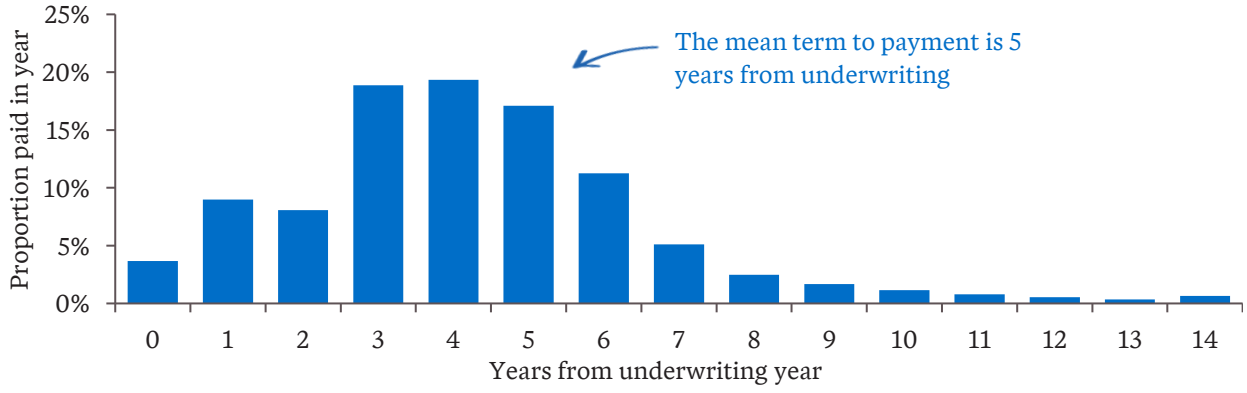
This suggests an appropriate **superimposed inflation rate of 0%–1% p.a.** over the medium term.

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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