SA CTP
Market briefing

Review of the risk premium for the 2023/24 underwriting year

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1 Risk premium

$124.90

▼ $21.30

The advised risk premium for the 2023/24 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 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 2023/24 underwriting year as the product of the advised claim frequency and average claim size, based on data to 31 December 2022. We examine claim frequency and size in detail, separately, in Sections 2 and 3.

Table 1 – Advised risk premium for 2023/24 underwriting year

Claim frequency represents the number of reported claims per annual policy		0.130%
Average claim size represents the expected ultimate cost of a reported claim	×	$95,885
Risk premium is the expected future cost per policy of claims made to insurers		**$124.90**

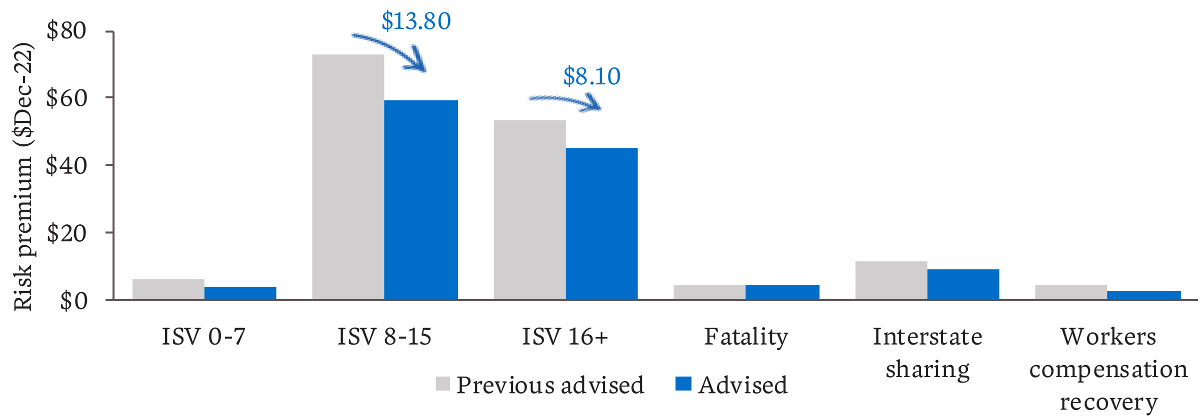
Our advised risk premium is $21.30 lower than our advised risk premium at the previous annual review (based on data to 31 December 2021) because:

▲ $6.70 due to inflation over the year to 31 December 2022

▼ $28.00 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 2022. The ISV 8-15 and ISV 16+ segments make up 84% of the risk premium.

Figure 1 - Risk premium assumptions by segment



The $28.00 decrease in advised risk premium due to updated assumptions is driven by ISV 8-15 and ISV 16+ segments.

2 Claim frequency by segment

0.130%

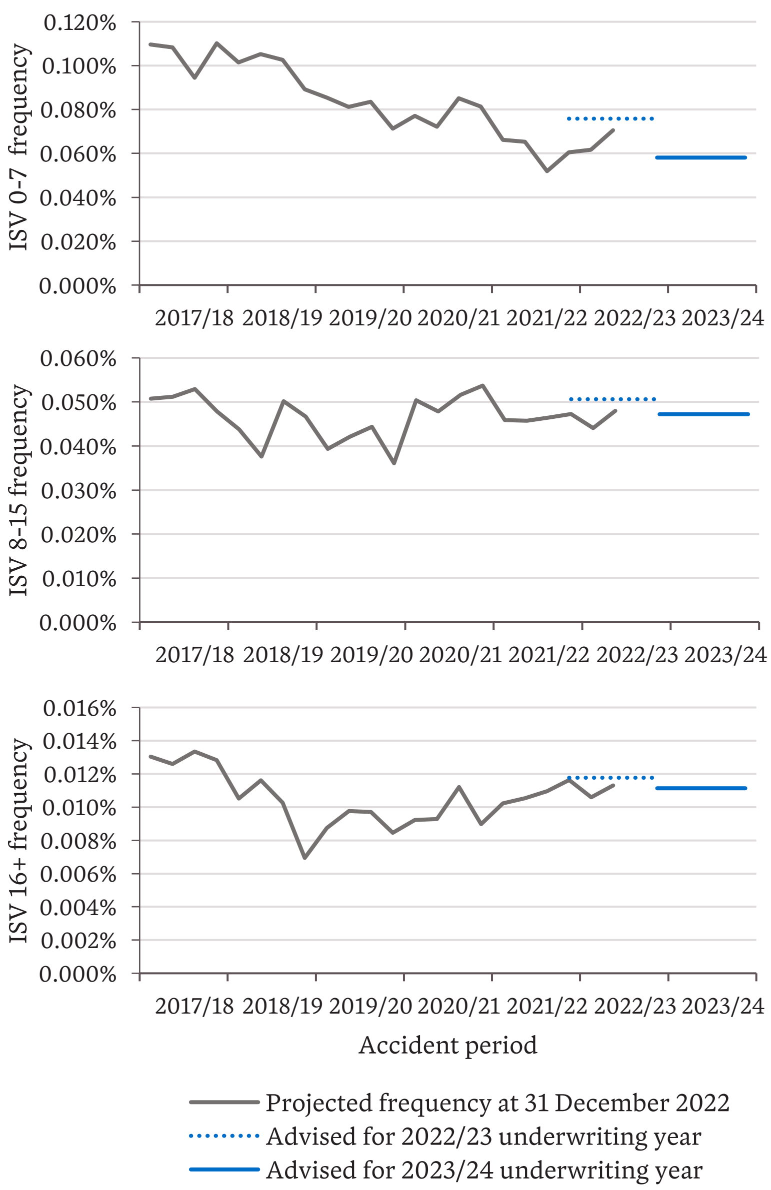
▼ 15%

The advised claim frequency for the 2023/24 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 89% of claims. We compare the advised frequency for the 2023/24 underwriting year to the advised frequency for the 2022/23 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 related lockdowns.

Figure 2 - Claim frequency for major segments



Claim frequency in the ISV 0-7 segment has been below expected for recent accident quarters.

Consequently, we advise an **ISV 0-7 claim frequency of 0.058%**, down 23% from a frequency of 0.076% at the previous review.

We observed fewer movements into the ISV 8-15 segment than was previously anticipated for older accident periods, partially offset by greater movements in recent accident periods.

Therefore, we advise an **ISV 8-15 claim frequency of 0.047%**, down 7% compared to a frequency of 0.051% at the previous review.

We advise an **ISV 16+ claim frequency of 0.011%**, down 5% from the previous review.

The other segments – fatalities, interstate sharing and workers compensation recoveries – contribute 0.014% to the overall frequency (11% of claims).

3 Finalised average claim size

$95,885
▲ 1%

The advised average claim size for the 2023/24 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.

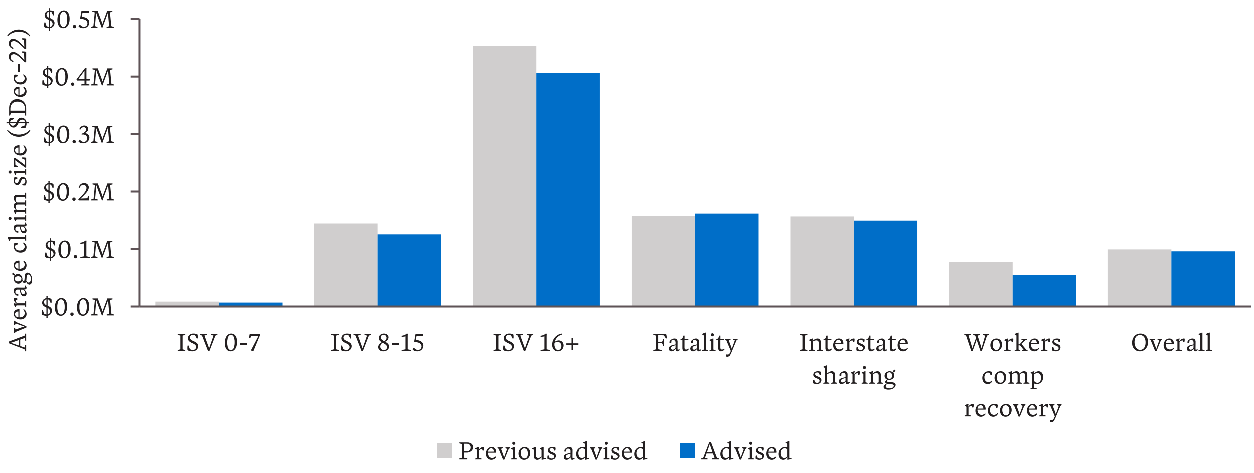
Our advised risk premium is 1% higher than our advised average claim size at the previous annual review (based on data to 31 December 2021) because:

- ▲ **5%** due to inflation over the year to 31 December 2022
- ▼ **4%** due to revised assumptions for average claim size.

The 5% increase due to inflation affects all segments equally. The 4% 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 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 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 2023/24 underwriting year 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 observed an increase in legally represented claims coded in the ISV 8-15 segment for accident year 2020/21. Claim development in this segment has been low since then, due to ISVs being estimated more accurately at an earlier stage. However, ISV 8-15 frequency for this accident year appears to be emerging higher compared to previous years.

  We assign partial credibility to this accident year when setting frequency assumptions. If future experience emerges similar to accident year 2020/21, we estimate that the impact on risk premium will be **+$5**.

  We have mature experience for accident years 2018/19 and 2019/20 and these years are emerging lower than our current advice. If future experience is similar to 2018/19 and 2019/20 levels, we estimate the impact on risk premium to be **-$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 have responded by using mostly privately underwritten experience to estimate average claim size for legally represented ISV 8+ claims in the current risk premium review.

  If high duration ISV 8+ claim size emerges like all post-reform accident periods rather than privately underwritten only, we estimate the impact on risk premium to be **+$3**.

- Psychological injury claims: The proportion of claims with psychological injuries has increased. This increase has affected low-cost segments, and therefore has not had a material impact on the risk premium. However, this may significantly increase the risk premium if these claims enter higher ISV segments. This can occur if there are uplifts via secondary psychological injuries.

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.

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 2022.

5 Economic assumptions

-0.34%

▲ 0.50%

The economic gap for the 2023/24 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 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	**3.20%** (▲ 0.93%) p.a.
AWE inflation rate	**3.53%** (▲ 0.43%) p.a.
Economic gap	**-0.34%** (▲ 0.50%) p.a.

We have increased the economic gap in line with the 0.93% p.a. increase in the risk-free rate of return and the 0.43% 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.

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