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SA CTP Market briefing

Review of the risk premium for
the 2024/25 underwriting period



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1 Risk premium

\$123.40
 ▼ \$2.40

The advised risk premium for the 2024/25 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 2024/25 underwriting year as the product of the advised claim frequency and average claim size, based on data to 31 December 2023. We examine claim frequency and size in detail, separately, in Sections 2 and 3.

Table 1 – Advised risk premium for 2024/25 underwriting period

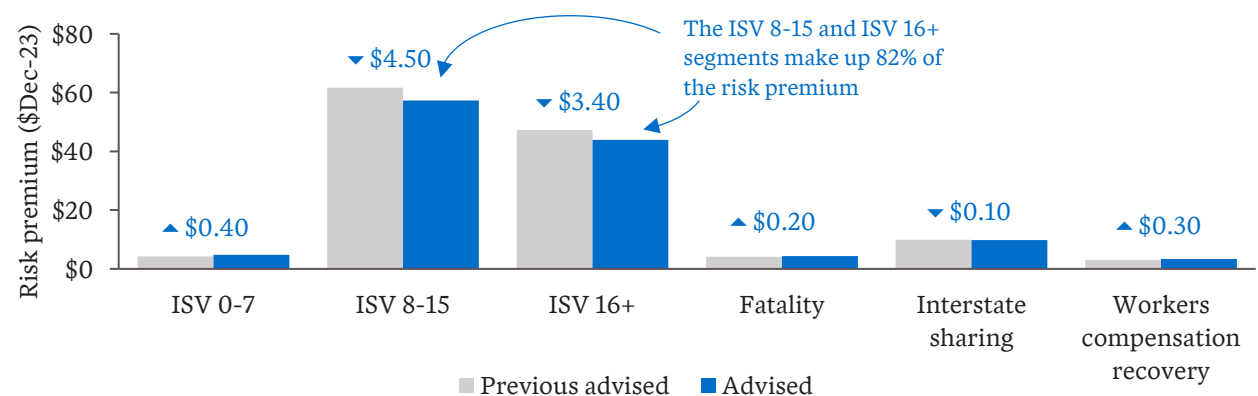
Claim frequency represents the number of reported claims per annual policy	0.132%
Average claim size represents the expected ultimate cost of a reported claim	× \$93,228
Risk premium is the expected future cost per policy of claims made to insurers	\$123.40

Our advised risk premium is \$2.40 lower than our advised risk premium at the previous interim review (based on data to 30 June 2023) because:

- ▲ \$4.60 due to wage inflation over the year to 31 December 2023
- ▼ \$7.00 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. Both current advised and previous advised risk premiums are expressed in dollar values as at 31 December 2023 for comparability.

Figure 1 - Risk premium assumptions by segment



The **\$7.00 decrease in advised risk premium** due to updated assumptions is mainly driven by ISV 8-15 and ISV 16+ segments.

2 Claim frequency by segment

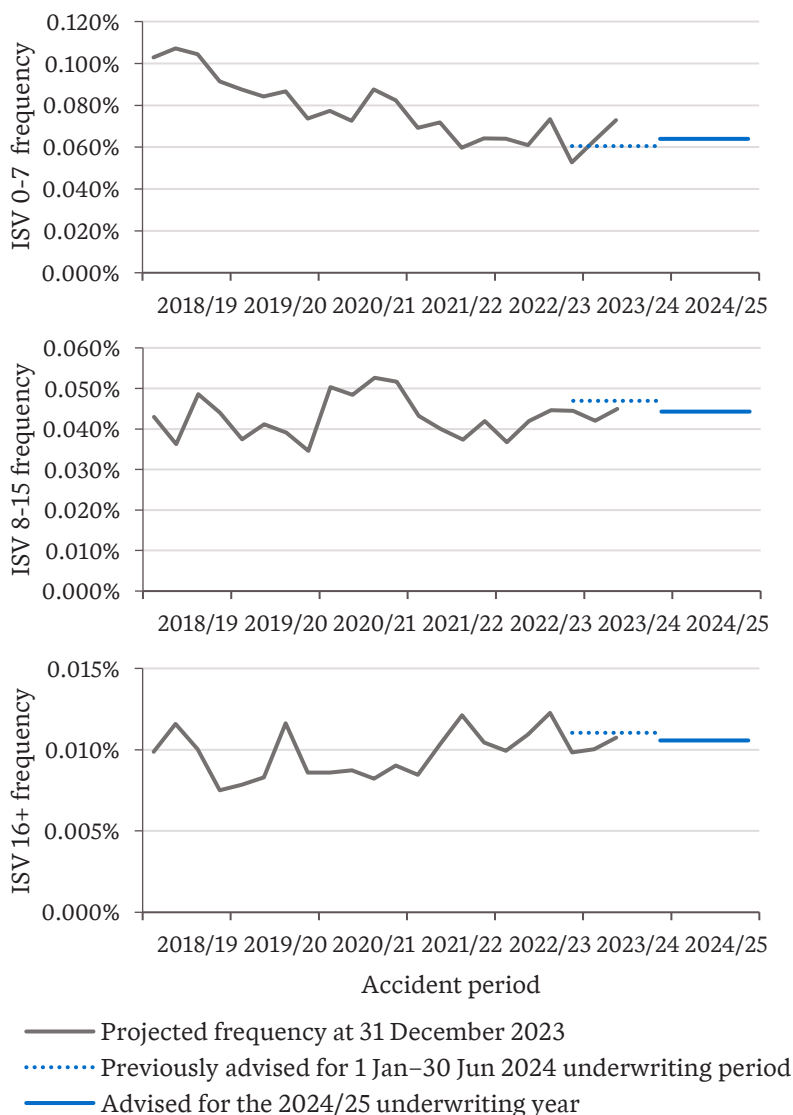
0.132%
~ 0%

The advised claim frequency for the 2024/25 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 current advised frequency for the 2024/25 underwriting year to the previously advised frequency for the 1 January 2024 – 30 June 2024 underwriting period, 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 volumes due to COVID-19 related lockdowns.

Figure 2 - Claim frequency for major segments



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

Consequently, we advise an **ISV 0-7 claim frequency of 0.064%**, up 5% from a frequency of 0.061% at the previous review.

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

Therefore, we advise an **ISV 8-15 claim frequency of 0.044%**, down 6% compared to a frequency of 0.047% at the previous review.

We advise an **ISV 16+ claim frequency of 0.011%**, down 4% 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

\$93,228
▼ 2%

The advised average claim size for the 2024/25 underwriting year 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.

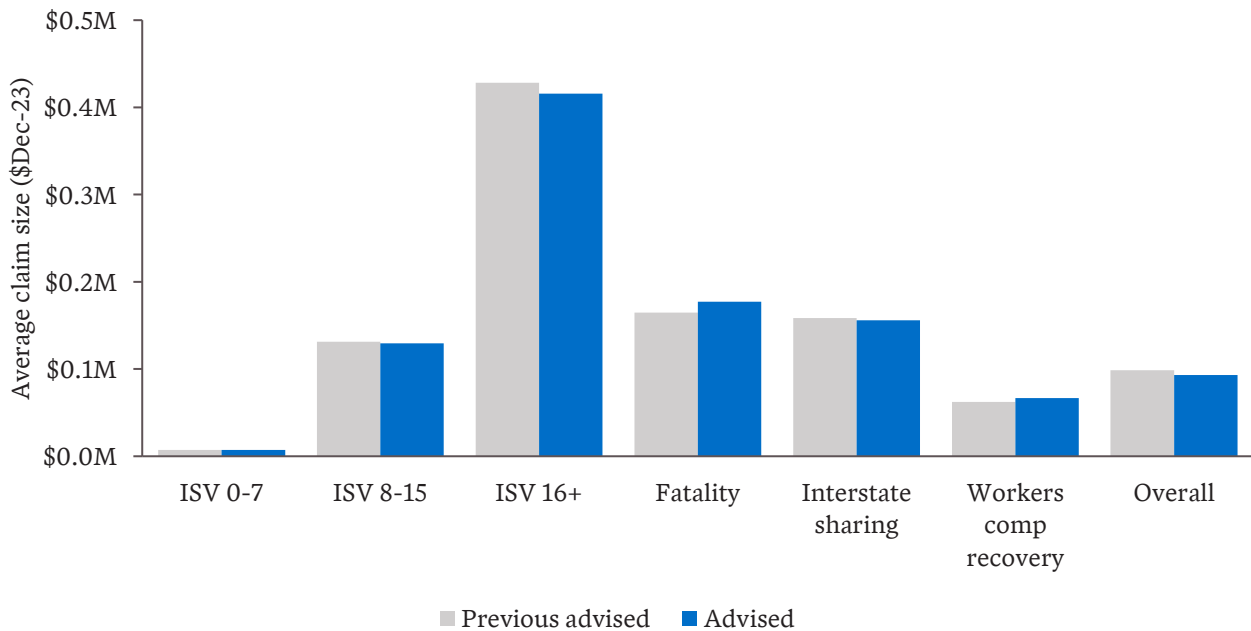
Our advised average claim size is 2% lower than the previous advice (based on data to 31 December 2023) because:

- ▲ 4% due to wage inflation over the year to 31 December 2023
- ▼ 5% due to updated assumptions for average claim size.

The 4% increase due to inflation affects all segments equally. The 5% 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 adjusted to include the +4% inflation in the year to 31 December 2023. 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, combined with a decrease in average claim size for ISV 16+ 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 2024/25 underwriting year turn out to be different to our assumed values.

Legally represented ISV 8+ claim segments constitute roughly 79% 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 **-\$5**.

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 **+\$4**.
- If future experience emerges similar to the 2019/20 - 2020/21 period, we estimate an impact on the risk premium of **-\$7**.
- **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 high and there is significant uncertainty around the future trajectory of both.
- **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 31 December 2023.

5 Economic assumptions

0.04%
▼ 0.24%

The economic gap for the 2024/25 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	3.94% (▼ 0.05%) p.a.	We have reduced the economic gap in line with the 0.05% p.a. decrease in the risk-free rate of return and the 0.20% p.a. increase in wage inflation.
AWE inflation rate	3.90% (▲ 0.20%) p.a.	
Economic gap	0.04% (▼ 0.24%) 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.

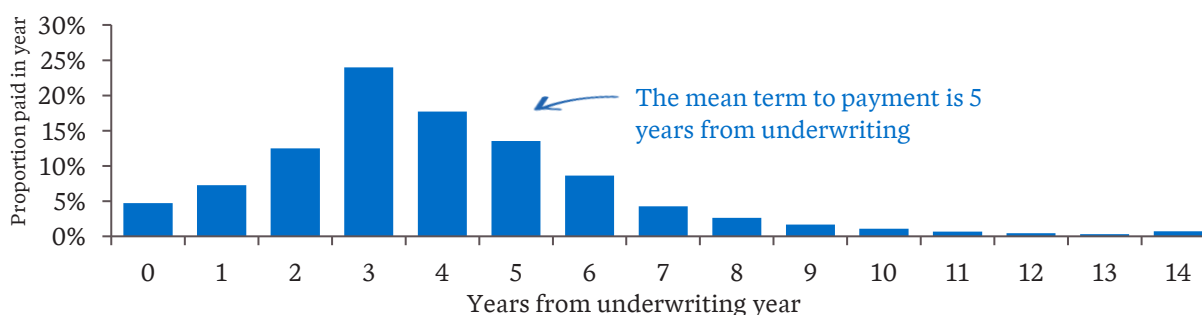
The risk of any honeymoon superimposed inflation related to the 2013 CLA reforms is also low because in the ten years since the reforms observed superimposed inflation has been negative. The Regulator may consider whether current environment – including economic uncertainty – warrants an additional superimposed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