

Estimated costs of alternative benefit designs for the ACT's Compulsory Third Party (CTP) Insurance Scheme

ACT CTP Citizen's Jury

13 March 2018

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1. Executive Summary

1.1 Introduction and scope

The Chief Minister's Treasury and Economic Development Directorate has requested Ernst & Young (EY) to provide estimated costings of alternative insurance scheme benefit design models for the ACT Compulsory Third Party (CTP) Scheme. These costings will be presented to a Citizens' Jury considering how the ACT CTP scheme can be improved to best balance the interests of all road users.

The scope of our role is to provide an assessment of the cost of the four proposed alternative model designs for the ACT CTP scheme as developed by the scheme designer with the Stakeholder Reference Group, compared to the premium of the current ACT CTP scheme. That is, a breakdown of the overall premium or estimated cost for each alternative benefit design to derive an estimated risk premium (i.e. claims cost) by payment type plus loadings for insurer expenses and profit, scheme levies and GST. The split of the current cost or premium for the ACT CTP scheme serves as a baseline for the scheme and is used as a comparison when assessing the new benefit design against alternative model designs.

Under all models, an estimate of the relative cost is only presented for the passenger vehicle class (i.e. class 1).

This report explains the data, assumptions and methodology used to derive the costing for the current scheme and each of the four proposed model designs. It also contains a number of metrics that flow from the costings that the Citizens' Jury can use to assess each model in their deliberations. This report should be read in conjunction with the report prepared by the scheme designer, which outlines the detail of the four proposed alternative model designs for the ACT CTP scheme.

1.2 Citizens Jury

In late August 2017, the ACT government announced a review of the CTP scheme by setting up a 'deliberative democracy' process. Once the 50 citizens' jury members (the jury) were randomly selected by the facilitators, the jury met during two weekends in October. The jury issued a report on 29 October 2017 titled "Citizens' Jury on Compulsory Third party Insurance Final report" (the jury's report) setting out the objectives it had agreed for a reformed CTP scheme to best balance the interests of all road users.

Since the jury's report was issued the 'scheme design expert', Geoff Atkins of Finity Consulting, has prepared four possible scheme designs for the jury to consider as set out in the report "Model Designs - Citizens' Jury for ACT CTP scheme", dated 9 March 2018 (referred to as the scheme design in this report). His work was undertaken in close consultation with the Stakeholder Reference Group (SRG) and EY. The SRG's role and responsibilities under the deliberative democracy process include model development, identifying witnesses, appearing as witnesses (where appropriate), providing evidence and advice, and building understanding and awareness of the jury process in the wider community. There are 10 members of the SRG comprising of two representatives from the health industry, two legal profession representatives, a single representative from each of the ACT CTP insurers (IAG and Suncorp), two representatives from government, the scheme design expert and EY. It is recognised that not all SRG members supported all aspects of the design options presented in the scheme design report.

EY's role is to produce an estimated cost of the four proposed model designs set out in the scheme design expert's report and to compare the cost to the existing premiums in the ACT CTP scheme. This report sets out the results of our work as noted above.

At the final citizen's jury meeting in late March 2018, the jury will consider the four proposed model designs and the associated cost estimates set out in this report and decide which of the four models

best meets the objectives they identified in their October 2017 jury's report. The Government will pursue the jury's preferred model.

The ACT government set out some constraints of the design of the scheme design models options as follows:

- ▶ Premiums are not to increase over current levels
- ▶ No change in type of vehicles covered (e.g. not to include off road bikes, bicycles)
- ▶ The review excludes the design of the Lifetime Care and Support scheme (LTCS scheme)
- ▶ The scheme will continue to be underwritten by private insurers.

1.3 Nature of cost estimates presented in this report

1.3.1 Existing scheme costs

For the existing scheme we have not undertaken a ground up estimate of the current ACT CTP scheme claims costs and overheads. Instead we used the existing premiums charged by the insurers as the basis of the current scheme costs. To be able to undertake a detailed comparison of existing scheme costs against the four model designs the average cost of claims component in insurers' current premiums has been split by type of payment based on the historical ACT CTP scheme experience (which has been relatively stable in recent years). Insurer expenses and profit margins have been taken from insurer's existing premium filings to the ACT CTP Regulator. To the extent that the existing scheme's future development differs from past claims experience, this development has not been incorporated in the costings. For a full discussion on the uncertainty in the costings see Section 5.

1.3.2 Four proposed model designs

The four proposed model designs are outlined in Finity Consulting's report "Model Designs - Citizens' Jury for ACT CTP scheme", dated 9 March 2018. We present a summary of the four proposed model designs in section 2 of this report and further detail is included in the above report.

The cost per policy results for the four proposed model designs presented in this report:

- ▶ Represent the average cost for all passenger vehicles (from approximately 290,000 registered vehicles)
- ▶ Reflect a mature scheme where motorists and the general public are fully aware of their rights under the Scheme, relationships between the service providers are well established and the infrastructure of the regulator is fully operative. This means that the estimated cost of the four model designs in the first few years may be different (i.e. likely lower) than our cost estimates (as discussed below and described further in Section 4)
- ▶ Do not represent the premium that will actually be charged in the four model designs since:
 - ▶ Premiums are set by licensed insurers who operate in the ACT CTP Scheme within the guidelines set by the ACT CTP Regulator; these guidelines aim to ensure that premiums fully fund the reasonable cost of claims, expenses and a reasonable insurer profit margin (i.e. profits are not inadequate) and that premiums are not excessive. In the ACT, insurers operate competitively and are allowed to offer different prices based on the class of vehicle (i.e. no other risk factors can be used by insurers to vary vehicle owner premiums)
 - ▶ The estimated cost is the average for all passenger vehicles which by definition means the actual cost for some vehicle owners will be higher than the average cost and the actual

cost for others will be lower than the average cost. This arises from the different premiums charged by each insurer

- ▶ The estimated cost in the four model designs does not allow for the treatment of any unearned premium surplus arising for insurers following the transition to the selected model design (see Section 4.3.2 for further details)
- ▶ There may be other factors that the ACT CTP Regulator will take into account in guiding insurer premiums during the first few years of the new Scheme. The premium guidelines will determine the actual premiums individual vehicles owners pay in the new Scheme
- ▶ In the first few years of the new Scheme it is possible the volume of claims will be lower than assumed for both not at-fault and at-fault drivers; this could mean that the cost for each of the four model designs in the first few years is lower than the estimated cost set out in this report. Refer to Section 4 for more details
- ▶ 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 in this report are based will result in changes to the estimates of the cost per policy and ultimately the premiums vehicle owners pay
- ▶ The existing LTCS Scheme is excluded from the deliberative democracy process. The most seriously injured road users will continue to be supported by the LTCS Scheme in its current form.

As noted in Section 1.6.2 below and Section 5 there is considerable uncertainty in estimating costs for a new CTP scheme and it is possible that the actual average cost per policy in the first few years of the four model designs will be higher or lower than our estimated costs set out in this report excluding the impact of factors extraneous to the reforms (e.g. changes in interest rates, changes in state/federal government taxes, changes in ACT road accident crash rates, etc.). Past experience of reforms to personal injury schemes such as CTP and workers compensation in Australia and internationally, indicates that the cost for the first few years of a scheme are typically lower than the estimated cost. The reasons for this are set out in Section 5 of the report.

1.4 Jury's scheme objectives and priorities

The jury's report set out the objectives it agreed on and listed them in the following order of priority:

1. Early access to medical treatment, economic support and rehabilitation services
2. Equitable cover for all people injured in a motor vehicle accident
3. A value for money and efficient system
4. Promote broader knowledge of the scheme and safer driver practices
5. Implement a support system to better navigate the claims process
6. A system that strengthens integrity and reduces fraudulent behaviour

We have calculated and included a number of metrics are derived from the costing and directly address the first three objectives above. The purpose of showing these metrics is to assist the jury assess each of the four design scheme models. In addition we have included other metrics that will assist the jury assess the impact each has on claimants that we have found useful in other CTP reforms. These metrics are summarised below and in Section 4.1.1 of the report.

1.5 Structure of this report

This report consists of the following sections:

- ▶ Section 1 sets out the executive summary. A glossary of terms is included at the end of the executive summary
- ▶ Section 2 sets out the scope of our work, background, a summary of each of the four model designs and the benefit design of the current scheme
- ▶ Section 3 documents the data, approach and key assumptions adopted to estimate the current average passenger vehicle CTP premium breakup for the current ACT scheme and the four model designs, including a split of the claims cost by payment type, insurer expenses, profit margins and various levies
- ▶ Section 4 sets out the results of the costing of the four model designs compared to the current scheme premium breakup. It also includes the results of the metrics of each model and a discussion of the results.
- ▶ Section 5 considers risks and uncertainty - a discussion of the sources of uncertainty in the costing results
- ▶ Section 6 sets out the reliances and limitations of this report.

1.6 Results and other metrics

This section contains the results of our costing for the four model designs compared to current scheme premium. In addition, this section illustrates the results of various metrics derived from the costings for the four models in response to the jury's objectives. As discussed in previous sections, our costings are based on a mature scheme environment where the motorists and the general public are fully aware of their rights under the selected model, relationships between insurers and medical and allied health providers are well established and the general infrastructure of the ACT CTP Regulator and insurers is fully setup.

Our estimated cost for the four model designs is not the actual premium that would be charged to individual vehicle owners due to various factors including a potential honeymoon period, competitive pricing, awareness of benefits, regulations, guidelines, etc. Refer to Section 4.3 for a full discussion on the difference between the estimated cost and the actual premium paid under any selected model.

More detailed results of the costing for each model design are contained in Appendix B.

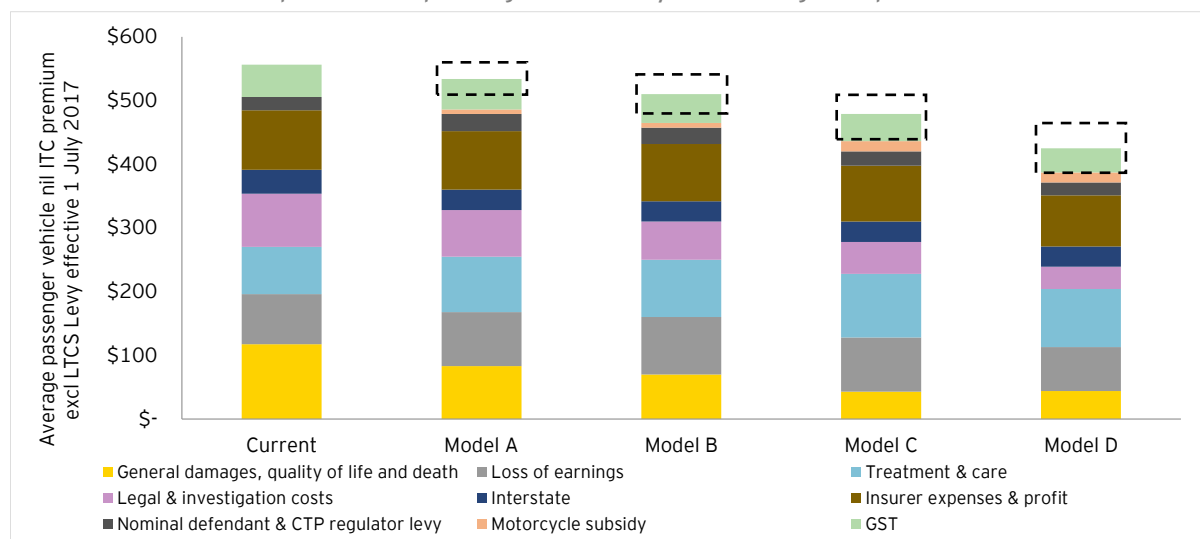
1.6.1 Estimated premium by modelled scenario

The following chart summarises the results of our estimated costs for the four model designs compared to the current scheme premium. The results show:

- ▶ Cost of claims broken up into four groups of benefits and costs which include defined benefits and common law awards plus legal costs for both not at-fault and at-fault claimants:
 - ▶ General damages, quality of life and death (including funeral expenses and compensation to dependents) at common law and defined benefits
 - ▶ Loss of earnings

- ▶ Treatment and care which includes all medical, private and public hospital, allied health services (e.g. occupational therapy, physiotherapy, etc.) domestic and personal care. Note the public ambulance is excluded as these services are funded via a separate levy as part of vehicle registration fees
- ▶ Legal and investigation costs which include insurer and plaintiff legal costs and insurer investigation costs. The benefits described above (general damages, loss of earnings, treatment, care, etc.) are shown inclusive of solicitor-client fees which would be deducted from settlements
- ▶ Interstate claims costs are shown separately. These are claims ACT insurers are liable to pay where an ACT-registered vehicle causes an accident while travelling in another state. These costs are unaffected by any reforms to the ACT CTP scheme as the benefits of the state in which the accident occurs apply
- ▶ Insurer acquisition expenses, insurer claims handling costs and insurer profit margin included in premium filings to the ACT CTP Regulator
- ▶ Nominal defendant levy which is the cost of claims for uninsured vehicles or for unsighted vehicles that caused an injury to a person
- ▶ Motorcycle subsidy. For motorcycles, the introduction of defined benefits for at-fault drivers results in a substantial increase in the cost of claims for motorcycle accidents. This arises because data in ACT and other states show that most motorcycle accidents are single vehicle accidents (i.e. the motorcycle rider is at-fault) and hence there are many more at-fault injured motorcyclists than not at-fault motorcyclists (up to 10 times more). In addition the average claim size experience of motorcycle claims is about twice the amount for other claims. Consequently the premium that would need to be charged for motorcycles in each of the four model designs would need to increase significantly above current premiums for motorcyclists. To meet the government's objective of no increase in premiums we have estimated the size of the subsidy passenger vehicles would need to pay to cap motorcycle premiums at current levels. We expect the premiums in some commercial classes (e.g. large trucks, buses and taxis) to fall by more than the percentage reduction in passenger vehicles under each model as drivers of such vehicles are more likely to be covered through workers compensation and hence the impact of including the at-fault driver is low
- ▶ Regulator levy and GST

Chart 1: Estimated CTP premium for passenger vehicles by model design compared to current scheme



The dotted line illustrates the uncertainty in the estimated costings – actual premiums could be higher or lower than the average estimated premiums as shown above. The range gets progressively wider going from Model A to Model D, with Model A estimates having the least uncertainty and Model D estimates having the most uncertainty. This is driven by the level of change under each model design compared to the current scheme.

More detailed results are set out in Appendix B including the split of claims costs between at-fault and not at-fault claimants and between defined benefits and common law claims costs. Note that the above premiums and costs exclude the LTCS levy.

Our key observations from the above chart in respect of passenger vehicles are:

- ▶ Average estimated premiums for all models represent a reduction from the current level of \$556.
 - ▶ Under Model A the estimated premium lies in the range of \$510-\$560 with an average reduction of about \$20.
 - ▶ Under Model B the estimated premium lies in the range of \$480-\$540, with an average reduction of about \$50.
 - ▶ Under Model C the estimated premium lies in the range \$440-\$510, with an average reduction of about \$75.
 - ▶ Finally under Model D the estimated premium lies in the range \$385-\$465, with an average reduction of about \$130.
 - ▶ Across all models, the largest reduction in the estimated claims cost arises from a decrease in general damages and legal costs.
- ▶ The differences in estimated costs in each model reflect:
 - ▶ Progressively more at-fault benefits available under the designs going from Model A to Model D
 - ▶ Progressively more defined benefits available under the designs going from Model A to Model D, which partially replace common law under each model – particularly under Models C and D
 - ▶ Lower general damages under Models C and D compared to Models A and B, particularly for less severe injuries (see scale of amounts in Appendix A)
 - ▶ Lower common law benefits under Model D compared to all other models due to a threshold restricting access to these benefits for not at-fault claimants to the most seriously injured
- ▶ The reduction in estimated legal costs going from Model A to Model D reflects a reduction in the cost of claims paid at common law (replaced by defined benefits) and hence overall legal costs for the scheme reduce for both insurers and plaintiffs. Legal costs related to defined benefits are significantly lower than legal costs for common law awards
- ▶ The reduction in the cost of claims across the four models results in a reduction in the dollar cost of insurer profits and GST as these are a percentage of premiums
- ▶ Overall there is little change in insurer expenses (excluding insurer legal expenses as they are treated as a claims cost). For claims handling costs, there is more work for insurers managing defined benefit claims so this increases slightly for all models (despite the reduction in claims

costs under all models). We have assumed there is no change in insurer acquisition expenses (see section 4.2.6 for further details)

- ▶ The cost of the nominal defendant levy reduces in line with the reduction in claims cost in each Model. For interstate claims under all models we have allowed for a reduction of \$5 compared to current scheme costs. This reduction represents the lower claims costs in the NSW scheme (where most interstate claims are expected to arise) which we assumed was not incorporated in insurers' current premiums (which were as at July 2017). In addition the subsidy for motorcycles adds about \$7 to Models A and B to about \$16 in Models C and D. There is also an estimated increase in the Regulator levy to \$10 in each model due to additional functions (such as an enhanced information role and some dispute resolution mechanism supports) and enhanced ICT requirements due to the introduction of defined benefits.

1.6.2 Other scheme metrics

The metrics below have been estimated to assist the jury with their assessment of each model. The metrics address the first three priorities set by the jury. In addition we have included various metrics on claim numbers and other characteristics of the models.

1.6.2.1 Early access to treatment, care and loss of earnings

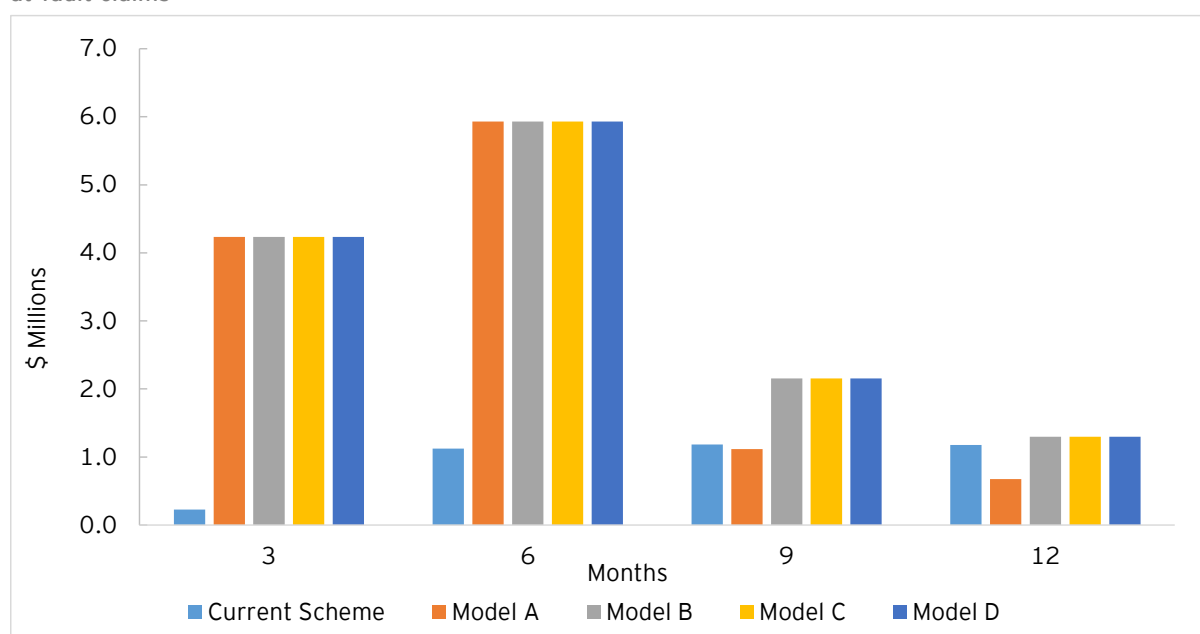
The jury's first priority in its report was "early access to medical treatment, economic support and rehabilitation".

The following chart sets out the estimated benefits paid by quarter for the first year after the claimant's accident for claims which occur in the same 3 month period. There is a significant delay between the medical service provided to a claimant and the payment of the fee by the insurer for that service. Our past analysis has estimated the delay at about three months. The delay includes:

- ▶ Time between the date of the service and the provider of the service sending an invoice to the insurer for the service
- ▶ Time between provider sending the invoice and the insurer receiving the invoice
- ▶ Period where the insurer assesses the invoice which may include questions to the provider and in some cases where errors in the invoice have been identified sending a correct invoice
- ▶ Delay in payment of the invoice by the insurer.

The figures for the current scheme include all payments made by insurers including interim or progressive claims payments for treatment, care and loss of earnings prior to the settlement of a claim.

Chart 2: Estimated claim payments¹ by insurers by quarter for treatment, care and loss of earnings for not at-fault claims



The above chart clearly shows that each model allows for substantially earlier access to treatment, care and loss of earnings than in the current scheme especially for the first 6 months.

The benefits paid to claimants in the current scheme in the early quarters are underestimated in the above chart as many claimants access Medicare benefits which are then recovered by Medicare from the common law lump sum. In addition, some employers may pay claimants sick leave for limited periods. Despite this many claimants in the current scheme are left out-of-pocket or cannot access treatment that is not covered by Medicare until the common law claim is settled. In the current scheme, the average time to settlement is around 4 years, in other words, half of settlement payments are paid after 4 years.

1.6.2.2 Equitable cover for all people

The jury's second priority in its report was "equitable cover for all people injured in a motor vehicle accident".

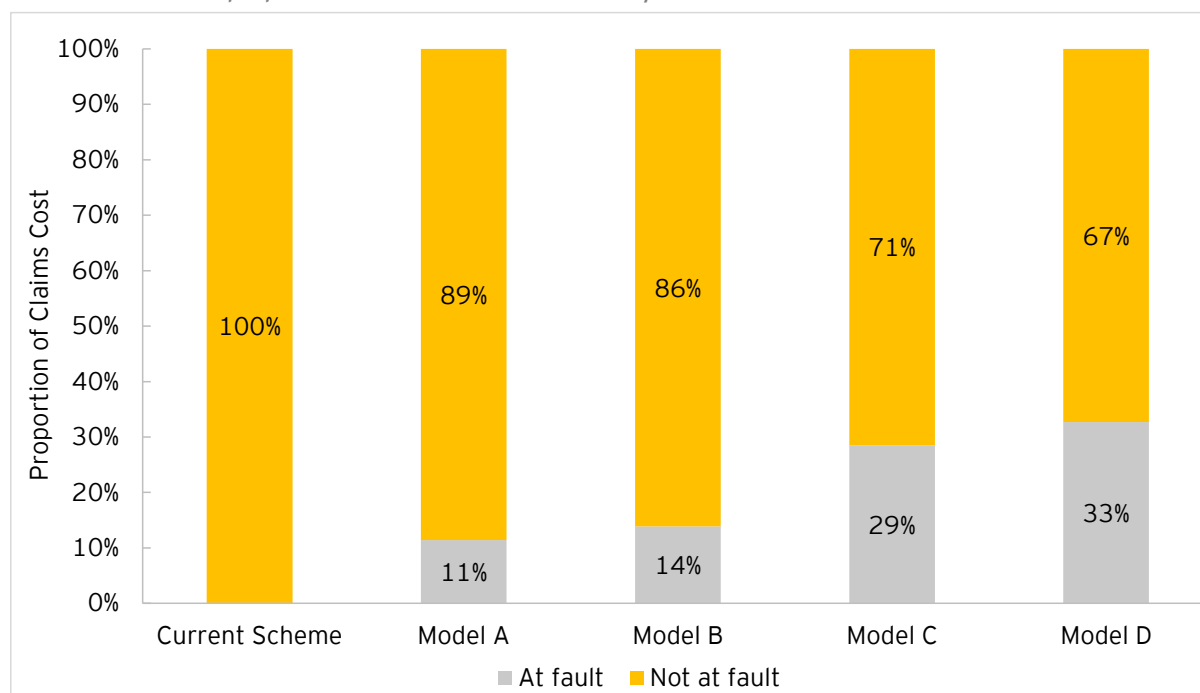
For each model we have set out two metrics compared to the current scheme:

- ▶ The estimated proportion of claims costs received by claimants for at-fault and not at-fault claimants (excluding legal and investigation costs)
- ▶ For not at-fault claimants only, the proportion of claims costs paid to those above and below the 10% WPI threshold and their average claim size.

In both metrics we have excluded all legal and investigation costs from claim payments (i.e. we also excluded estimated solicitor-client costs from claim payments).

¹ Estimated claim payments shown represent the middle of a range of best estimates. Actual payments could be higher or lower than shown

Chart 3: Estimated proportion of claims costs received by claimants for at-fault and not at-fault claims



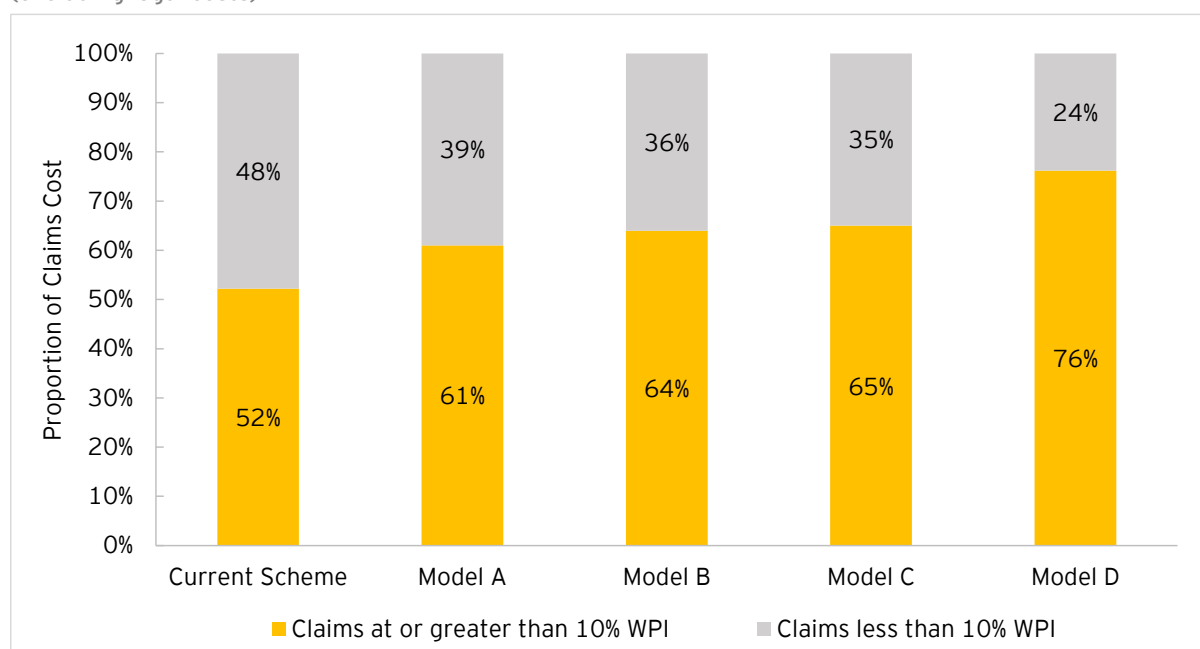
Note: Claim costs above exclude all legal costs (including estimated solicitor-client fees) as they represent the benefits claimants receive

The above chart shows that the estimated proportion of claims costs (excluding legal and investigation costs) received by at-fault claimants increases from almost 0% in the current scheme (MANF benefits) to 11% in Model A where benefits are limited to six months, to 14% in Model B where benefits are limited to one year, to 29% in Model C where benefits are limited to two or five years and 33% in Model D where all benefits are limited to five years. Models C and D also make a quality of life statutory lump sum available to at-fault claimants and not at-fault claimants.

These proportions should be compared to the 40% of the potential claims population which we estimate could be at-fault claims made under each model in a mature scheme situation. The proportion does not reach 40% in Model D since not at-fault claims meeting the 10% WPI threshold have access to common law benefits unlike at-fault claimants whose benefits cease at five years.

The chart below for not at-fault claims shows the estimated proportion of the cost of claims split between claims with at least 10% WPI and those below 10% WPI.

Chart 4: Estimated proportion of claims costs for not at-fault claimants split by WPI above and below 10% (excluding legal costs)



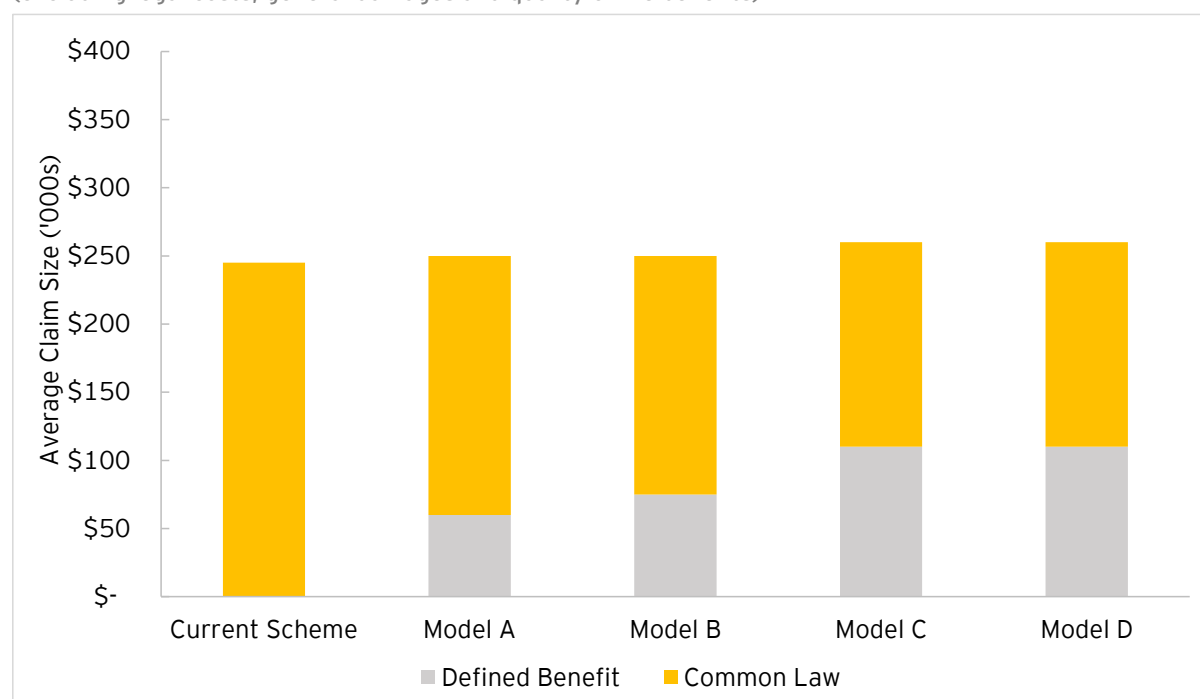
Note: Claim costs above exclude all legal costs (including estimated solicitor-client fees) as they represent the benefits claimants receive

The estimated proportion of claims costs (excluding all legal costs) received by not at-fault claimants with a WPI of 10% or greater in the current scheme is 52%. This proportion gradually increases across the model designs to 61% in Model A, 64% in Model B, 65% in Model C and 76% in Model D. The increases reflect aspects of the differences in benefit design across the four design models including:

- ▶ Reduction in generosity of general damages at common law especially for claims below 10% WPI
- ▶ Reduction in the number of claims accessing common law in each model with the most impact under Model D where there is a 10% WPI threshold for all common law claims. Moving from Models A to C there are progressively less minor injured claimants expected to pursue common law remedies
- ▶ Increase in defined benefits to all claimants. Experience in other schemes shows that this typically leads to a greater proportion of claim payments being received by more seriously injured claimants than under a fully common law scheme. This is particularly the case for Models C and D where the defined benefits are payable for up to five years compared to at most one year in Models A and B.

The following two charts for not at-fault claims show the estimated average claim size for claims with a WPI of at least 10% received by claimants. There is significant uncertainty in these estimated average claim sizes as they rely on the assumed number of claims in each cohort which is difficult to estimate. Therefore, average claim sizes shown are indicative only; actual claims sizes could be significantly higher or lower than illustrated in the charts. The level of uncertainty is much more significant for claims less than WPI 10% for those claims at or above this level of impairment due mostly to the much larger level of uncertainty in the estimated number of claims that will be reported for the first group of claims.

Chart 5: Estimated average claim size for not at-fault claimants with a WPI greater than or equal to 10% (excluding legal costs, general damages and quality of life benefits)



Note: Average claim size above excludes all legal costs (including estimated solicitor-client fees) as it represents the benefits claimants receive. Amounts shown are indicative only and represent the middle of a range of best estimates.

A significant proportion of common law benefits relate to general damages, especially under the current scheme and Models A and B. Under Models C and D however, general damages and quality of life benefits represent a much smaller proportion. Hence, excluding general damages from common law and excluding quality of life from defined benefits provides a view of economic loss under each of the models compared to the current scheme (i.e. shows loss of earnings, treatment and care only).

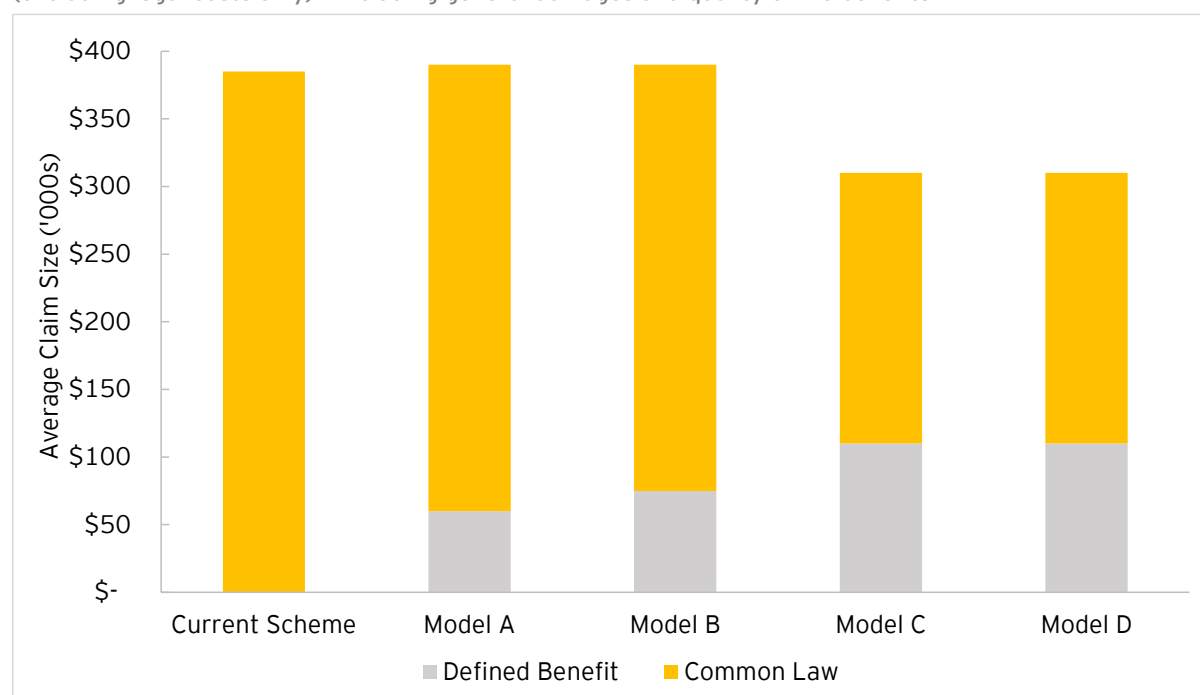
The above chart show that the average claim size for these benefits for claims with a WPI of at least 10% in the current scheme and under each of the model designs is around \$250,000, i.e. relatively unchanged from the current scheme. The proportion of defined benefits increases in moving from Model A (about 25%) to Model D (around 40%).

The estimated average claim size increases slightly under Models A and B compared to the current scheme as a result of some benefits being received as defined benefits (paid directly to claimants) rather than common law settlements (with solicitor-client legal fees deducted). A greater impact is seen under Models C and D, where more benefits are received directly by claimants as defined benefits (up to five years).

The estimated average size of defined benefits for at-fault claims will be similar to those for not at-fault claims as in the above chart.

The chart below shows the estimated average claim size for these claimants including general damages and quality of life benefits.

Chart 6: Estimated average claim size for not at-fault claimants with a WPI greater than or equal to 10% (excluding legal costs only) – including general damages and quality of life benefits



Note: Average claim size above excludes all legal costs (including estimated solicitor-client fees) as it represents the benefits claimants receive. Amounts shown are indicative only and represent the middle of a range of best estimates.

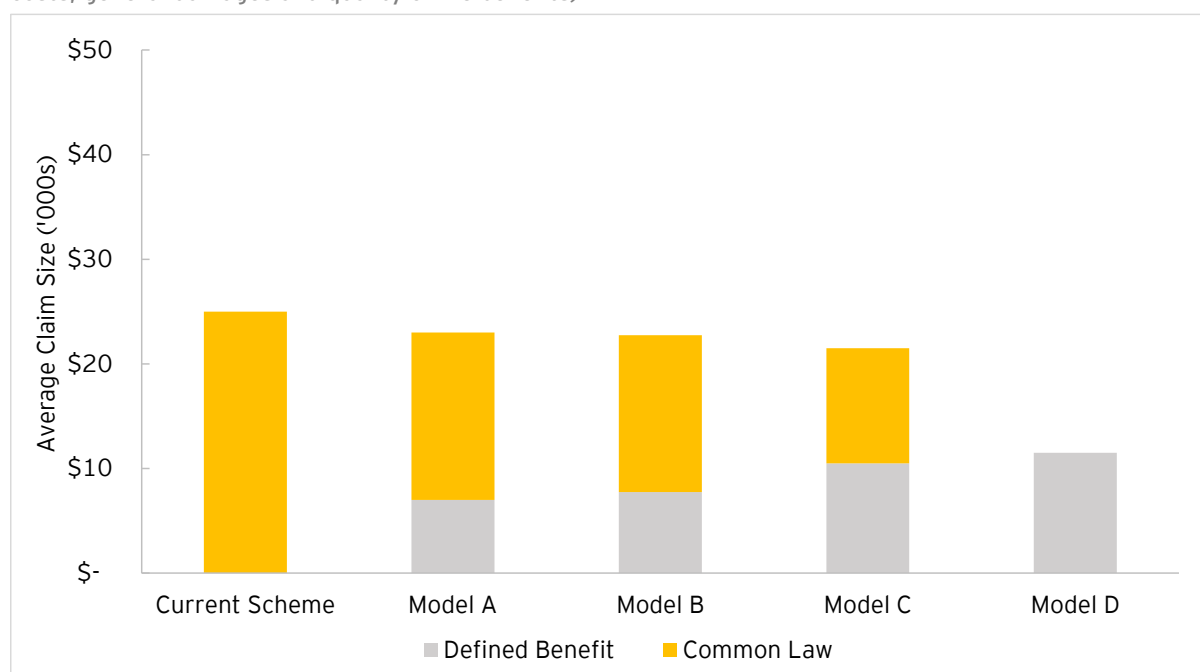
The difference in the figures between the above chart and the previous chart is the amount of general damages and quality of life benefits received by claimants after legal expenses (the figures also exclude estimated solicitor-client costs).

The above chart shows that the average claim size for all benefits for claims with a WPI of at least 10% in the current scheme and under Models A and B is around \$400,000, i.e. relatively unchanged from the current scheme. This arises because these claimants are expected to receive similar levels of general damages and other benefits under these models as they do in the current scheme.

In contrast, under Models C and D there is a prescribed scale for general damages (as shown in Appendix A) which is much lower than current levels; hence the estimated average claim size is lower than the current scheme under these models. The other benefit types are at similar levels as shown in the previous chart.

The corresponding figures for not at-fault claims less than 10% WPI are set out in the following two charts.

Chart 7: Estimated average claim size for not at-fault claimants with WPI less than 10% (excluding legal costs, general damages and quality of life benefits)



Note: Average claim size above excludes all legal costs (including estimated solicitor-client fees) as it represents the benefits claimants receive. Amounts shown are indicative only and represent the middle of a range of best estimates.

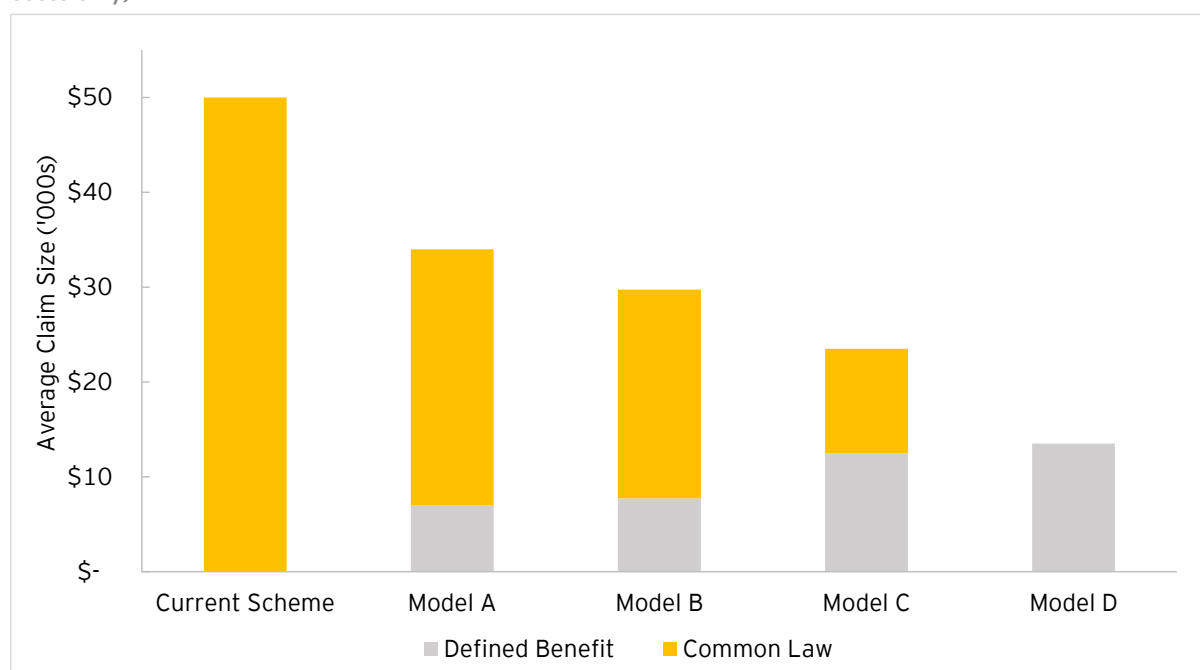
As discussed above, excluding general damages and quality of life benefits from the estimated average claim size for claims below 10% WPI provides a view of economic loss under each of the models compared to the current scheme (i.e. shows loss of earnings, treatment and care only).

The above chart shows that the average claim size for these benefits for claims below 10% WPI is around \$25,000 in the current scheme. This reduces slightly under Models A, B and C representing the lower number of claims expected to access common law due to the availability of defined benefits. Under Model D, there is no access to common law for these claimants (due to the threshold of 10% WPI) hence the average claim size is made up of defined benefits only. Under Model D these claimants have access to defined benefit loss of earnings for up to 5 years whereas under Model C this is limited to 2 years. Hence the average size of defined benefits is higher in Model D than in Model C.

The estimated average size of defined benefits for at-fault claims will be similar to those for not at-fault claims as in the above chart.

The chart below shows the estimated average claim size for these claimants including general damages and quality of life benefits.

Chart 8: Estimated average claim size for not at-fault claimants with WPI less than 10% (excluding legal costs only)



Note: Average claim size above excludes all legal costs (including estimated solicitor-client fees) as it represents the benefits claimants receive. Amounts shown are indicative only and represent the middle of a range of best estimates.

The difference in the figures between the above chart and the previous chart is the amount of general damages and quality of life benefits received by claimants after legal expense including estimated solicitor-client costs are excluded.

The average claim size for claims with WPI below 10% in the current scheme is around \$50,000. Under Models A and B the amounts of general damages available is significantly lower and this drives the estimated average claim size downwards.

Under Models C and D there is no general damages available at common law for claimants with WPI less than 10%. Defined benefits increase slightly compared to the previous chart, representing the quality of life benefit.

The estimated average size of defined benefits for at-fault claims will be similar to those for not at-fault claims as in the above chart.

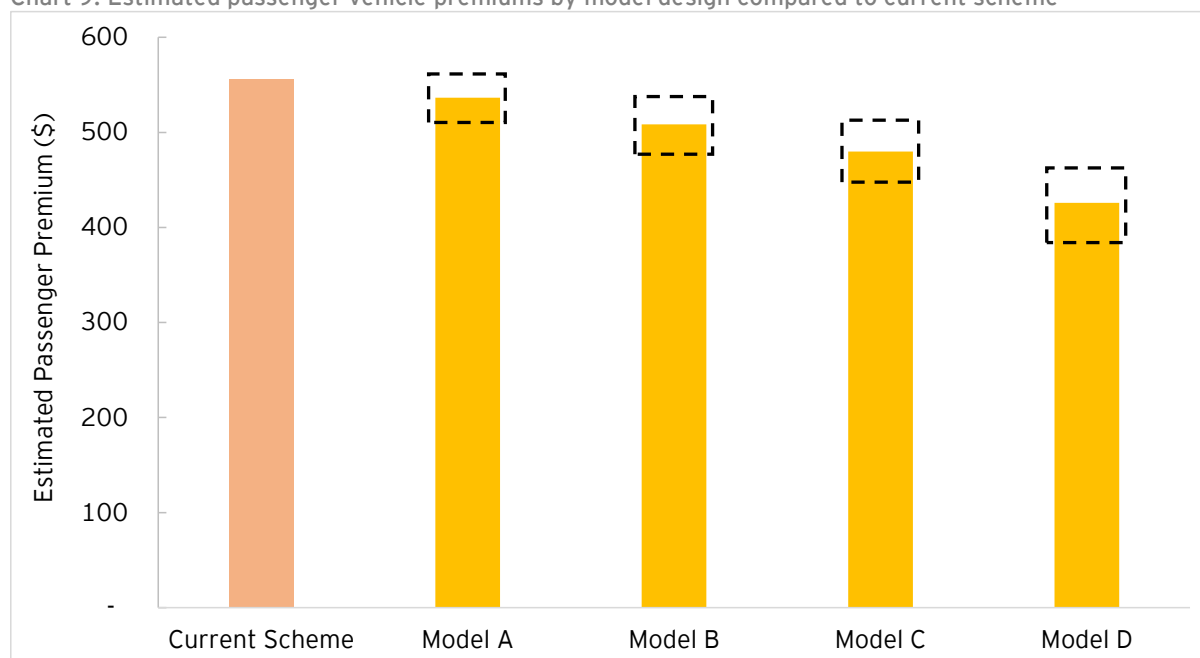
1.6.2.3 Value for money and efficient scheme

The jury's third priority in its report was "a value for money and efficient scheme".

The costing results provide information for the jury to assess value for money as represented by the average premium paid for passenger vehicles under each of the model designs compared to the current scheme.

Premiums (excluding the ACT LTCS scheme levy and costs) are set out below.

Chart 9: Estimated passenger vehicle premiums by model design compared to current scheme



The dotted line illustrates the uncertainty in the estimated costings – actual premiums could be higher or lower than the average estimated premiums as shown above. The range gets progressively wider going from Model A to Model D, with Model A estimates having the least uncertainty and Model D estimates having the most uncertainty. This is driven by the level of change under each model design compared to the current scheme. Refer to Section 5 for further details on risks and uncertainty and more details on the makeup of premiums in Appendix B.

Premiums are estimated to reduce from the current scheme average of \$556 to between \$510 to \$560 under Model A, \$480 to \$540 under Model B, \$440 to \$510 under Model C and \$385 to \$465 under Model D.

The second metric relevant to the jury's objective is the efficiency of the scheme. We have defined efficiency as the proportion of each premium dollar that is returned (or estimated to be returned) to injured people. This is calculated as follows:

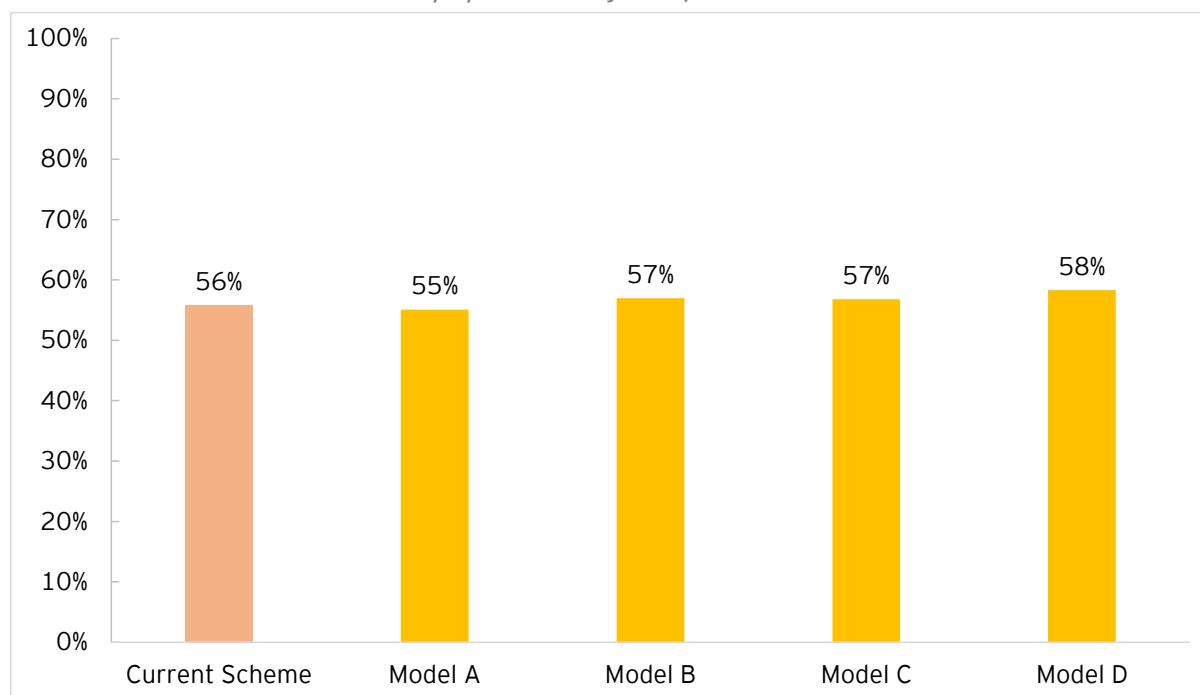
$$\text{Scheme efficiency} = \frac{\text{claim payments received by claimant } \{ 1(a) \}}{\text{Premium } \{ 1(a) + 1(b) + 2 + 3 + 4 \}}$$

Where:

1. Claims payments:
 - a. All claim costs excluding those in 1 (b). Claims costs including public hospital but not public ambulance services
 - b. Legal, investigation and medico legal costs including an estimate of solicitor-client legal costs
2. Insurer expenses
3. Scheme expenses (ACT CTP Regulator levies)
4. Insurer profits

The chart below illustrates the efficiency of the scheme under each model design compared to the current scheme.

Chart 10: Estimated scheme efficiency by model design compared to current scheme



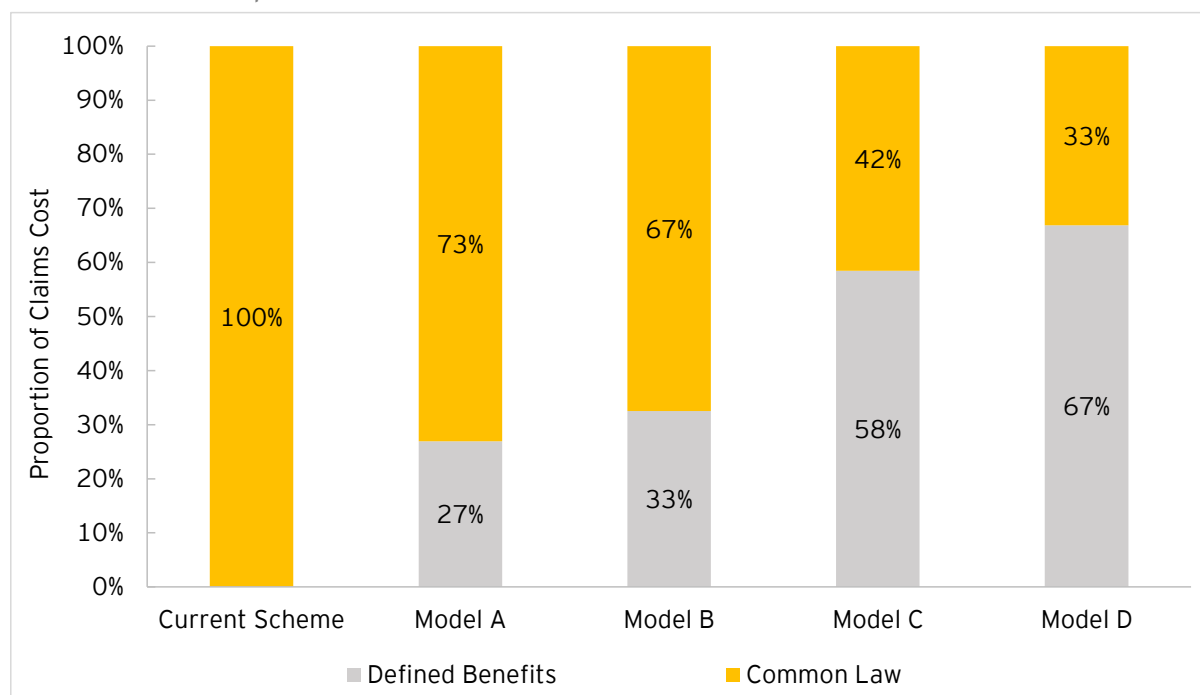
The chart shows the current estimated scheme efficiency of 56% is expected to gradually increase from Model A at 55% to Model D at 58%. In Model A the reason for the reduction in efficiency is due to insurer expenses and profit not reducing in line with the reduction in claims costs and the additional regulator levy (as these are held at a constant level across all models). For more details on insurer expenses and profits see Section 1.6.2.6

The main driver of the increase in scheme efficiency is the reduction in legal costs associated with increasing defined benefits and a reduction in common law numbers and benefits offset by insurer expenses and profit not decreasing as much as the reduction in claims costs and the additional regulator levy. In addition the efficiency of intestate claims does not change in any of the models from the current scheme.

1.6.2.4 Split of defined benefits and common law

The distribution of benefits in each model varies between mostly defined benefits and mostly common law. Models A and B are most similar to the current scheme with most of the benefits paid at common law. Models C and D are more similar to schemes such as Victoria and the reformed NSW scheme with most benefits paid as defined benefits and with restrictions for accessing common law damages. The split of benefits received by claimants between common law and defined benefits is set out in the following chart excluding legal and investigation costs (and excluding estimated solicitor-client costs).

Chart 11: Estimated split of benefits between defined benefits and common law for not at-fault claims



Note: Claim costs above exclude all legal costs (including estimated solicitor-client fees) as it represents the benefits claimants receive

The above chart shows the proportion of defined benefits in each model for not at-fault claims increases from almost 0% in the current scheme (MANF benefits) to 27% under Model A and 33% under Model B. Under Models C and D the proportion increases significantly as defined benefits can be paid for up to five years and there is a quality of life defined benefit included in the design. Note that defined benefits make up 100% of at-fault claims.

1.6.2.5 Claim numbers

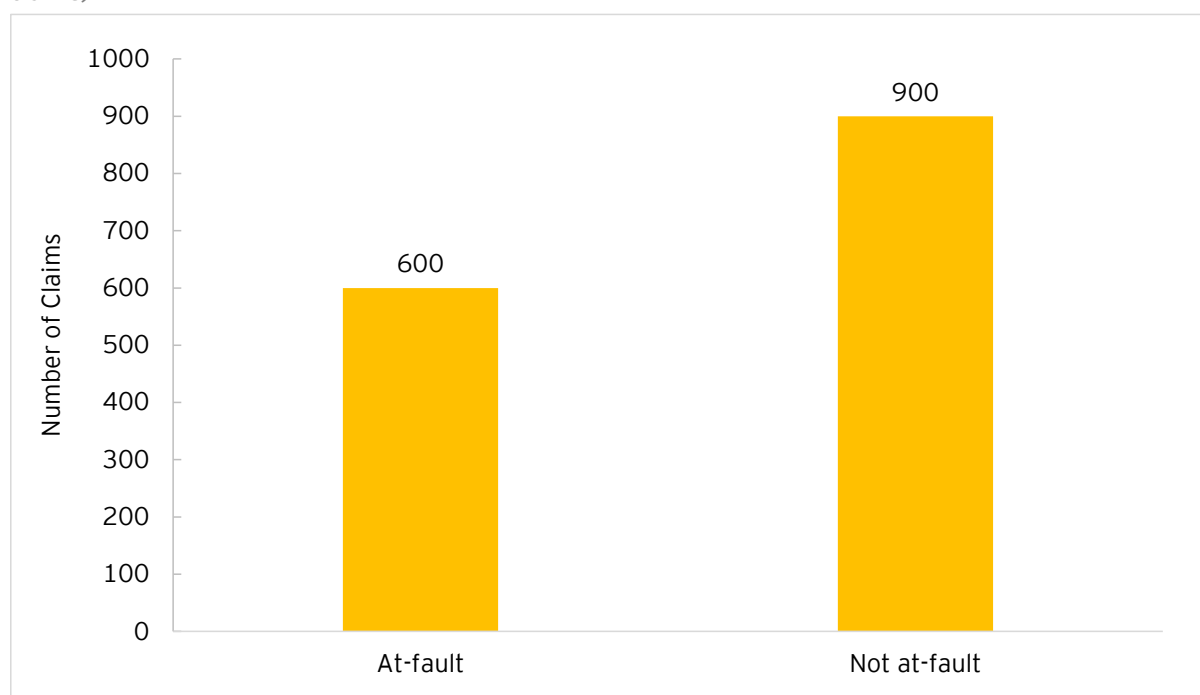
The number of claims accessing benefits under each model compared to the current scheme illustrates how cover is extended to more road users via defined benefits (more equitable cover) and the numbers accessing common law damages reduce across the models.

The following charts and tables set out the estimated claim numbers in relation to:

- ▶ The annual estimated potential claims population for at-fault and not at-fault claims per annum. We have separately identified the number of interstate claims
- ▶ The annual estimated number of not at-fault claims accessing common law with legal representation. For these claims we have also included estimates of the average size of legal and investigation costs per claim for party-party plaintiff legal costs, solicitor-client plaintiff legal costs and insurer legal and investigation costs
- ▶ The annual estimated number of claimants entitled to additional benefits once they meet the 5% and 10% WPI thresholds in Models C and D
- ▶ The annual estimated number of claims that are entitled to treatment, care and loss of earnings for defined benefits for not at-fault claims from one year onwards.

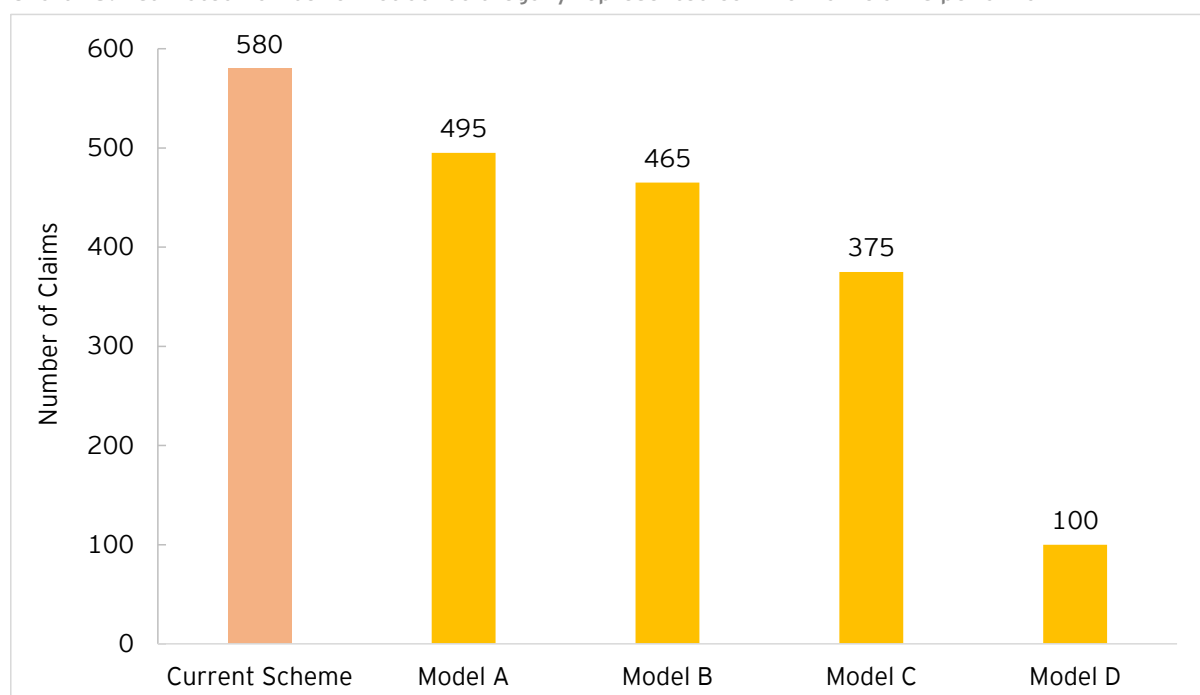
We have estimated a total potential claims population of 1,500 claims per annum split into 900 not at-fault (current scheme numbers) and 600 at-fault claims. Of the not at-fault claims we estimate about 75 are interstate claims. These numbers apply to each of the four model designs.

Chart 12: Estimated total potential population of defined benefit claims per annum (including interstate claims)



The estimated number of legally represented common law claims (excluding interstate claims) for each model design are set out in the following chart.

Chart 13: Estimated number of not at-fault legally represented common law claims per annum

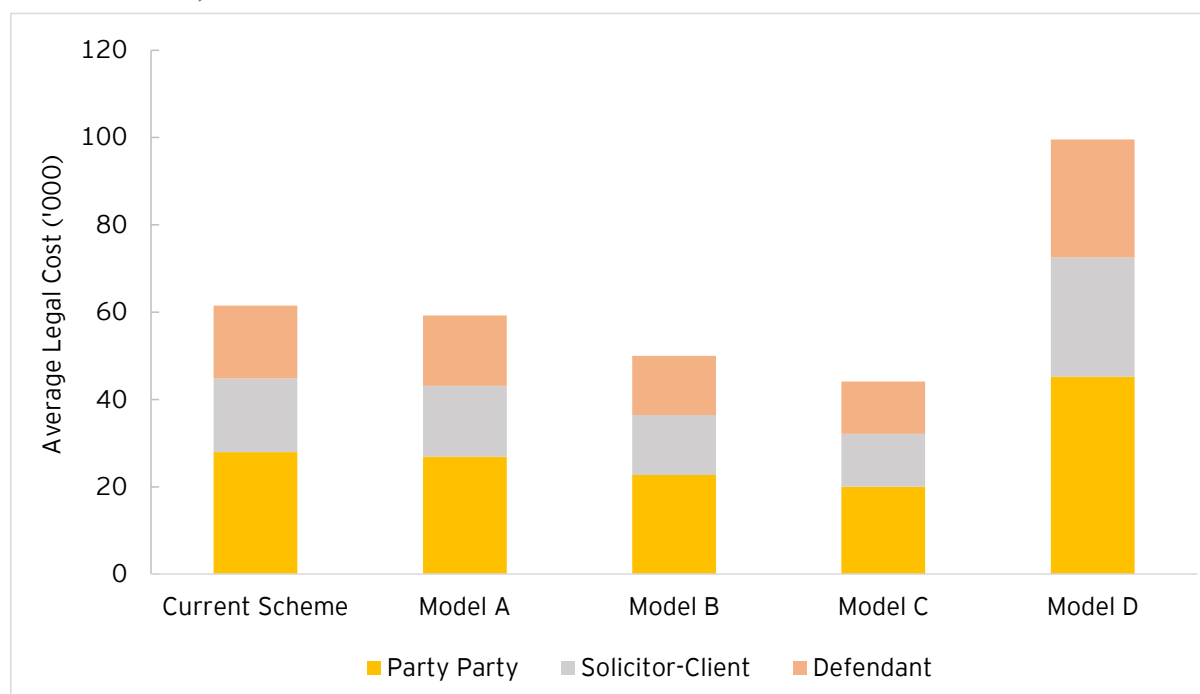


The estimated number of legally represented claims in the current scheme is about 580 per annum (excluding interstate claims) and we estimate these numbers will reduce to 495, 465, 375 and 100 in each of Models A to D. The reductions in Models A and B are due to the inclusion of an Injury Scale Value (ISV) scale for general damages awards at common law, while the reduced numbers for Model C are due to the 10% WPI threshold for access to general damages at common law. For Model

D the numbers are significantly lower than all other models due to the 10% WPI threshold for access to common law damages.

For each not at-fault common law legally represented claim, the average legal costs under each model are shown in the chart below, split into party-party costs, estimated solicitor-client costs and defendant/investigation costs.

Chart 14: Estimated average legal costs per not at-fault legally represented common law claim (excluding interstate claims)



Note: Average legal costs shown above are indicative only and represent the middle of a range of best estimates. Actual legal costs under the scheme could be lower or higher than shown.

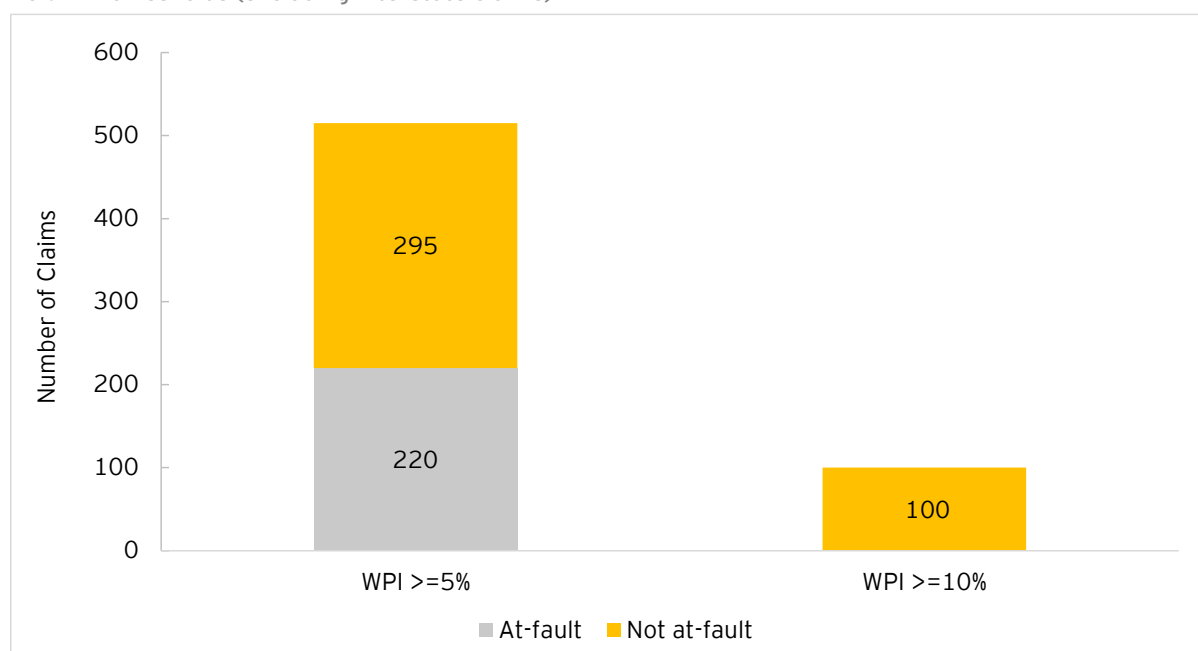
The main reasons for the reduction in average legal costs per legally represented claim at common law are:

- Reduction in numbers of overall common law claims (as shown in the previous chart) mainly due to the availability of defined benefits. The proportion of legally represented claims is expected to remain the same as the current scheme (about 70%) for Models A to C but in Model D all claims WPI 10% or higher are assumed to be legally represented
- Defined benefit payments already received will reduce the absolute amount of common law damages across the models.

Under Model D, average legal costs are high as the common law threshold of 10% WPI restricts common law to the most seriously injured claimants only. The estimated number of not at-fault claimants expected to fit this criteria is shown in the next chart.

Also illustrated in the next chart is the estimated number of both at-fault and not at-fault claims equal to or greater than 5% WPI. The 5% WPI threshold applies to the quality of life lump sum statutory benefit for Models C and D. These numbers exclude interstate claims.

Chart 15: Estimated annual number of claimants entitled to additional benefits once they meet the 5% and 10% WPI thresholds (excluding interstate claims)



For Models C and D claimants are entitled to additional benefits once they reach the 5% and 10% WPI thresholds. We estimate about 100 not at-fault claims out of the estimated potential population of not at-fault claims of 900 claims to be able to meet the 10% WPI threshold. For the 5% threshold we estimate about 220 at-fault and 295 not at-fault claims out of the estimated potential population of not at-fault claims 900 claims and at-fault numbers of 600 to meet the 5% threshold.

Note that the 10% WPI threshold does not apply to at-fault claimants as they do not have access to common law benefits (we estimate there would be about 65 at-fault claimants that are equal to or over 10% WPI).

We have estimated the number of not at-fault claims that are entitled to receive defined benefit treatment, care and loss of earnings from one year to five years after the accident date in the following three charts. Due to excesses applying for treatment and care and loss of earnings in the Victorian scheme (from which the ACT costings were based), we are unable to estimate the numbers receiving benefits before one year. The at-fault benefits are estimated to be about two thirds of the numbers in the following charts.

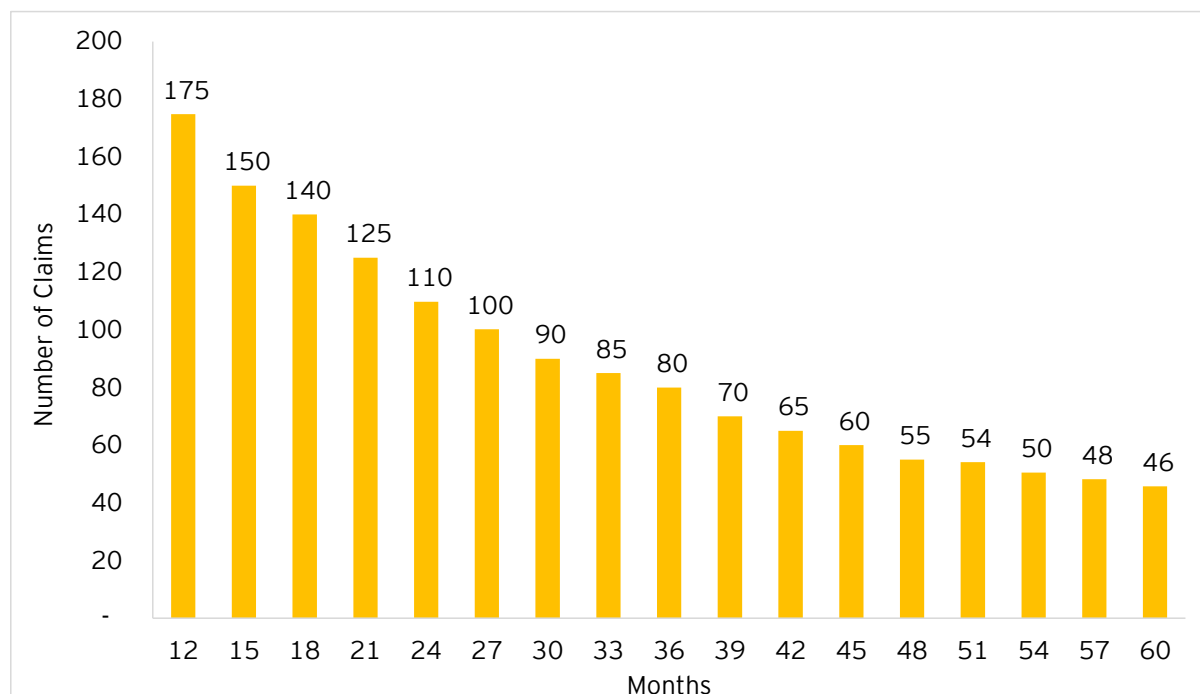
Note that the following three charts apply to Model D whilst only the treatment and care charts apply to Model C due to the benefit design. For Models A and B the charts are not applicable as defined benefits cease at six months for Model A and 12 months for Model B.

In all three charts below please note:

- It is claims receiving payments in the three months beginning at each period. For example, the 12 month figures relate to the number of claims receiving benefits in the three months from the 12 months to 15 months after the accident date.
- The same claims do not receive benefits each quarter. For example in the treatment chart below, for the 110 estimated claims receiving treatment in the 24 month figure, some may have received treatment benefits in the 21 month period and some may not have received benefits in the 21 month period. In other words, the number of unique claims receiving benefits after 60 months for treatment may be more than the estimated 46 claims.

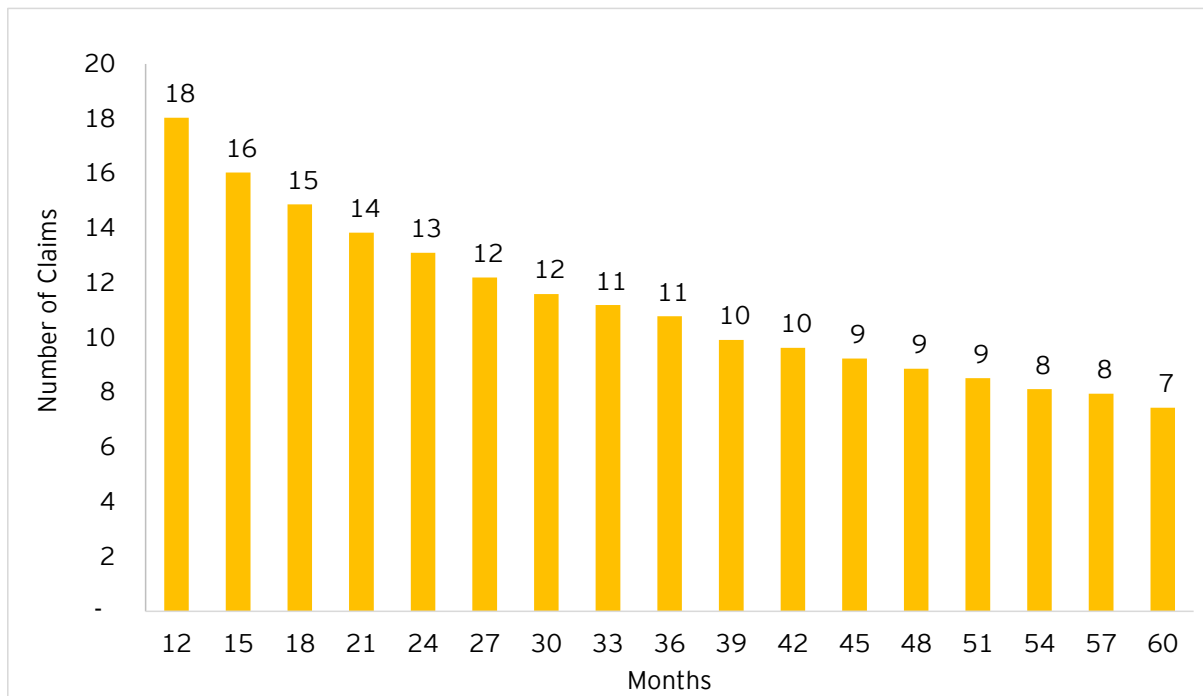
- ▶ The same claims do not receive economic loss, care and treatment in each period. For example in the loss of earnings chart for the 15 month period, the estimated 60 claims may or may not also receive treatment or care in that same period.
- ▶ You cannot add the numbers in each chart to estimate how many claims receive benefits in the same period as some claim will receive all three payments types in the same period and others will only receive one or two of the available payment types
- ▶ We have ignored any common law benefits paid to claimants in the charts below, i.e. they represent defined benefit payments only which claimants are entitled to.

Chart 16: Estimated annual number of not at-fault claimants receiving treatment payments from one year after the accident date



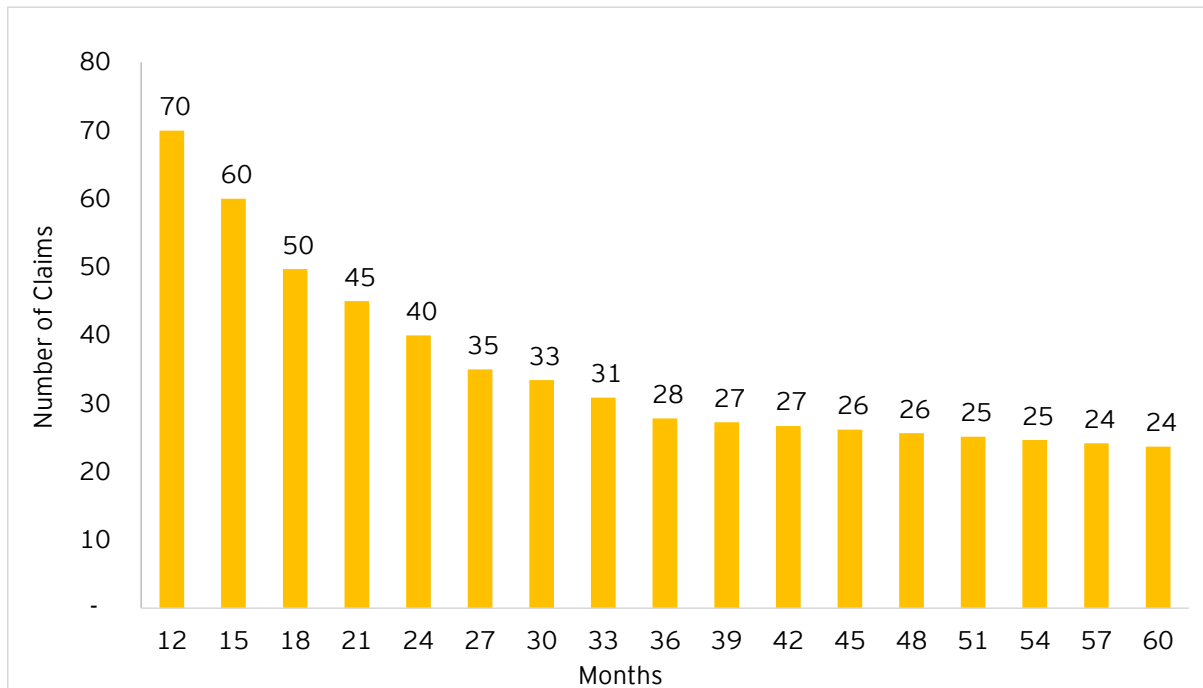
The estimated number of claims requiring treatment in each three month period out of the potential estimated 900 potential claims receiving defined benefits gradually reduces over time. Most of the claims requiring treatment from three years are those that meet the 10% WPI threshold. The average treatment benefit from three years is around \$1,300 per quarter (except for a small number of claims requiring surgery). Note that these amounts exclude treatment for LTCS claims.

Chart 17: Estimated annual number of not at-fault claimants receiving care payments from one year after the accident date



The estimated number of claims requiring care in each three month period out of the potential estimated 900 potential claims receiving defined benefits is small compared to those requiring treatment (i.e. varies from about one in six to one in ten claims receiving treatment) and they gradually reduce over time. Most of the claims requiring care from three years are those that meet the 10% WPI threshold. The average care benefit from three years is less than \$2,000 per quarter. Note that these amounts exclude treatment for LTCS claims.

Chart 18: Estimated annual number of claims with loss of earnings from one year



The estimated number of claims requiring loss of earnings in each three month period out of the potential estimated 900 potential claims receiving defined benefits is typically less than those

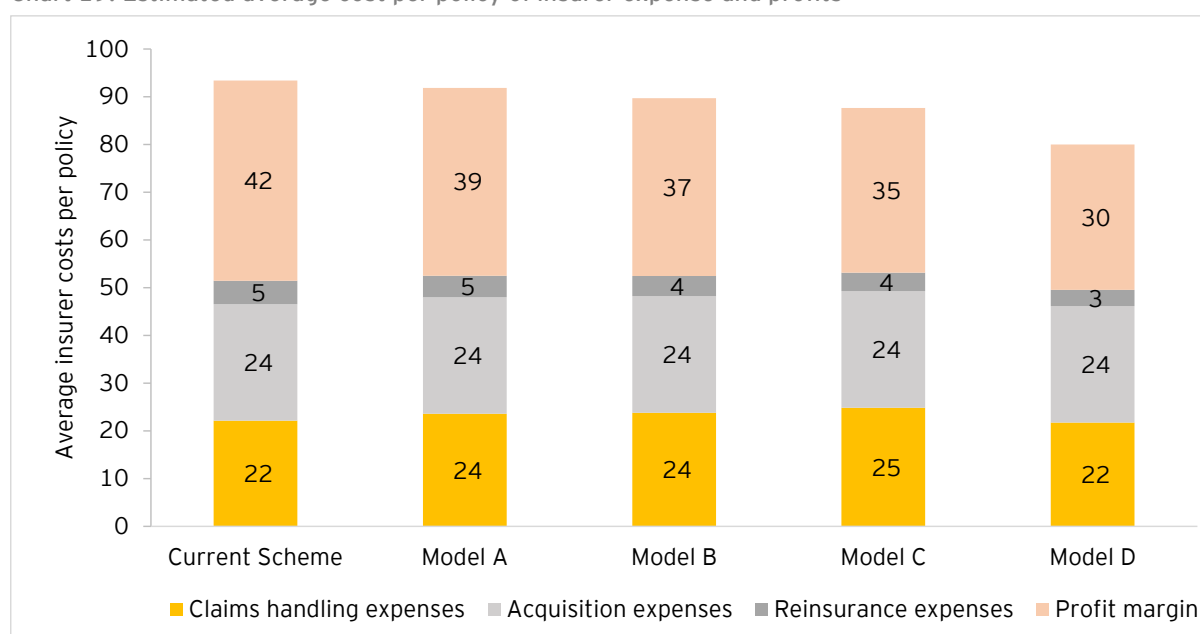
requiring treatment. As the numbers gradually reduce over time at longer durations, the number of claims receiving loss of earnings is about half the number receiving treatment. Most of the claims requiring loss of earnings from three years are those that meet the 10% WPI threshold. The average loss of earnings benefit from three years is around \$1,500 per quarter.

1.6.2.6 Insurer loadings

The average cost per policy of insurer expenses and profits under each model is derived from the current scheme as follows:

- Claims handling expenses - assumed to be higher as a proportion of claims costs than the current scheme (almost 6% of claim payments) as the availability of defined benefits increases the cost of handling claims for insurers. Hence the proportion of claims handling costs increases across from Model A to D in line with increasing defined benefits available
- Acquisition costs - assumed to remain at the same level as the current scheme (around \$24) as they are not likely to vary as the claim cost varies (a minor exception being commission costs; assumed to have a negligible impact)
- Reinsurance costs - assumed to remain at the same proportion of claim costs in the current scheme (around 1%)
- Profit margin - assumed to remain at the same proportion of claim costs in the current scheme (about 9%).

Chart 19: Estimated average cost per policy of insurer expense and profits



The level of insurer expenses does not change much between the current scheme and the four proposed model designs despite the reduction in claims costs whereas as the level of insurer profits reduces from \$42 in the current scheme in each model being only \$30 in Model D.

1.7 Risks and uncertainties

There is significant uncertainty associated with actuarial estimates. Estimates of future claims experience (claim 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. Therefore, actual claims experience may emerge at levels higher or lower than the actuarial estimates

This report contains results relating to the current scheme and the proposed four model designs. As there is no actual claims experience for the four model designs the results relating to them have been estimated using relevant experience in the ACT, Victoria, NSW and Queensland CTP Schemes. However, as this claims experience is not actual experience from the four model designs; naturally the uncertainty associated with the results is greater than for the current scheme. Our costing estimates are based on the assumption that the claims cost in the four model designs will reflect the claims experience observed in the reference schemes after allowing for different benefit design, demographic, operational differences and estimated behavioural aspects. Implicitly, our estimates assume that the reference schemes provide a reasonable basis upon which to estimate the cost under each of the proposed models. There are many uncertainties associated with this assumption which in practice may mean that actual experience differs from estimated experience.

The four model designs will represent a significant change for all stakeholders who interact with the scheme. This creates significant uncertainty around the ultimate cost of the scheme under each of the models; compounded further as the proposed models will impact stakeholders differently and therefore their responses to the four model designs will differ. We have based these behaviours on experience observed in other schemes which should prove a reasonable guide.

There is no detailed legislation yet available for the four model designs including any regulations or guidelines; as a result, scheme costs are difficult to estimate. Any differences in the assumed details of the content of the Act, 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. Further comments on uncertainty are included throughout the report; however the most important are outlined in Section 5.

1.8 Reliance and limitations

In undertaking this costing analysis, reliance has been placed upon the data provided to us by the ACT CTP Regulator, State Insurance Regulatory Authority, the Victorian Transport Accident Commission, Roads and Maritime Services, VicRoads, the Motor Accidents Insurance Commission, IAG and Suncorp. With regards to the ACT CTP Regulator claims data we are specifically relying on the accuracy of the data provided by insurers to the Regulator, including the classification of payment types and injury severity coding over time.

We have also made judgements and estimates where the information provided was based on discussions with people with relevant specialist knowledge where it was not part of the analysis conducted as part of the costing analysis. 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 the report document should be made only after studying the presentation and attached costing results in its entirety, 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 herein.

It is essential that any reader of this report understand its associated qualifications and limitations. These are described throughout this report; however the most important are outlined in Section 5 and Section 6.

Glossary

Term	Definition
Accident year	Denotes the year in which the vehicle accident giving rise to the claim occurred. Accident years generally run from 1 July to 30 June.
Acquisition expenses	All expenses insurers incur to acquire and retain CTP business. These expenses include personnel costs and associated costs (e.g. rent, insurance premiums, etc.), IT costs, finance costs (e.g. accounting, audit, actuarial, etc.), stationery, marketing and advertising costs, commissions and other costs including allocated overhead costs.
ACT CTP Regulator	The ACT CTP Regulator is an independent Territory authority established under section 14 of the Road Transport (Third-Party Insurance) Act 2008 (CTP Act) to regulate compulsory third-party (CTP) insurance in the Territory.
ACT CTP Regulator Levy	The ACT CTP Regulator Levy is a separate levy payable in respect of each CTP policy as part of the registration process. It is paid to the ACT CTP Regulator to fund its operations.
Care claims costs	Refers to the costs of domestic help and personal care that is not provided by a health practitioner. This may be assistance with personal care, housework, shopping, gardening, childcare and the like. It may be help in keeping connections with society. It may include services for the injured person and also substitution for services previously provided by the injured person There are two types of care payments: 1. Griffiths v Kirkemeyer (GvK): for care provided by family to injured person 2. Sullivan v Gordon (SvG): for loss of injured person's capacity to provide care to family
Casualty	Any person killed or injured as a result of an accident attributable to the movement of a road vehicle on a road, as recorded by the Transport Canberra and City Services (TCCS), based on police reporting.
Citizens' jury	A group of 50 individuals from the ACT chosen randomly to take part in a 'deliberative democracy' process that will ultimately decide the new model design for the ACT CTP scheme.
Claim frequency	Ultimate number of claims divided by the number of vehicles.
Claimant benefits	Loss of earnings and earning capacity, treatment and care, rehabilitation, allied health, general damages and other payments made to the claimant (i.e. excluding legal and investigation costs).
Claims Cost Disclosure ("CCD") data	Data received by SIRA from plaintiff lawyers on total legal costs inclusive of contracted-out legal costs and others amounts paid including to claimants, Centrelink and Medicare.
Claims handling expenses	Refers to insurer expenses related to managing and administering CTP claims. These expenses include costs of claims staff managing claims, rehabilitation staff, managers and support staff. Treatment
Commission	Refers to payments made to agents/brokers by insurers for writing CTP insurance on behalf of the insurer.
Cost per policy	Defined in this report for each head of damage as the total cost of claims, before any overheads, divided by the number of insured motor vehicles in ACT
General damages	Refers to compensation at common law for loss of enjoyment of life. Is also referred to as "pain and suffering", or "non-economic loss". In the defined benefits context, it is usually referred to as a "permanent impairment" benefit.

Term	Definition
Head of damage	Another term for a benefit type that can form a claim payment to an injured person e.g. loss of earnings. Normally a terminology used for common law settlements and judgements.
Investigation costs	Costs incurred by the insurer for investigating the circumstances of a claim and for determining whether benefits should be paid to the claimant.
Lifetime Care and Support (LTCS) scheme	This scheme provides treatment, rehabilitation and attendant care services to people catastrophically injured in motor accidents in ACT, regardless of who was at-fault in the accident.
Loss of earnings	Refers to compensation provided to claimants for pre-injury earnings/pre-injury earnings capacity lost due to not being able to work as a result of their injury. Pre-injury earnings are defined as earnings in the past 12 months for those who were in regular employment. Pre-earnings injury capacity are defined as earnings expected over the next 12 months for those in irregular employment
Motor Accident Notification Forms (MANFs)	The form provides for the early payment of reasonable and necessary treatment and care expenses up to a maximum of \$5,000 and for a period of up to six months. MANFs can be lodged by at-fault and not at-fault injured parties.
Motor Accidents Insurance Commission (MAIC)	MAIC is the regulator of the Queensland CTP scheme
Net reinsurance cost	Refers to the net cost of reinsurance after allowing for recoveries (i.e. reinsurance claim payments).
No-fault	The insured is covered against losses, regardless of fault in the incident generating the loss.
Nominal defendant	The Nominal Defendant is a statutory office which exists to enable persons injured by unregistered vehicles without CTP insurance or by unidentified vehicles (e.g. hit and run accidents) to be compensated. In ACT, nominal defendant claims are managed by the Australian Capital Territory Insurance Authority (ACTIA).
Party-party legal costs	Costs payable to the claimant by an insurer for the claimant's legal expenses
Passenger vehicle	Motor cars, station wagons and 4WDs used for the movement of passengers, with 9 or less seats (including the driver). It excludes 4WDs that are made to be used for the transfer of goods
Permanent impairment or Whole person impairment (WPI)	An assessment of the degree of impairment to a body part, system or function, based on the American Medical Association's (AMA) Guides to the Evaluation of Permanent Impairment. The four model designs use the 5 th edition of those guidelines.
Personal Injury Register (PIR)	A database maintained by the CTP Regulator which collates and records CTP claims related data provided by the licensed insurers.
Premium relativities	Values by vehicle class that insurers adopt in determining the range of premiums charged by vehicle class.
Profit margin	Refers to the proportion of premium in excess of all insurer claims and expenses. Levies including the LTCS levy and GST are excluded when assessing the profit margin.
Propensity to claim	Ultimate number of claims divided by the number of road casualties.
Quality of life	Refers to compensation that is not related to direct financial loss. In the defined benefits context, it is usually referred to as a "permanent impairment" benefit. In common law, it is referred to as "general damages", "pain and suffering", or "non-economic loss"

Term	Definition
Risk premium	Expected claim payout before insurer expenses, profit margin, levies and GST.
Scheme efficiency	The amount of each premium dollar that is returned (or expected to be returned) to injured people. $\text{Scheme efficiency} = \frac{\text{claim payments received by claimant } \{ 1(a) \}}{\text{Premium } \{ 1(a) + 1(b) + 2 + 3 + 4 \}}$ where: 1. Claims payments: a. All claim costs excluding those in 1 (b). Claims costs including public hospital but not public ambulance services b. Legal, investigation and medico legal costs including solicitor-client legal costs 2. Insurer expenses 3. Scheme expenses (ACT regulator levies) 4. Insurer profits. Premiums exclude the ACT Lifetime Care and Support Scheme.
Solicitor-client legal costs	Costs payable to the legal practitioner representing the claimant, by the claimant, under an agreed private arrangement i.e. those costs in excess of party-party legal costs. These costs are paid out of the common law settlement or judgment and are not paid by the insurer to the claimant.
Stakeholders Reference Group (SRG)	A group of insurance, legal and health professionals who will use the objectives and views of the jury to design and cost workable models for the jury's final deliberations
State Insurance Regulatory Authority of NSW (SIRA)	SIRA is the regulator of the NSW CTP scheme
Statutory benefits	A schedule of benefits prescribed in the legislation, with limits on some benefits.
Superimposed inflation	The increase in claim costs over time, over and above wage inflation.
Transport Accident Commission ("TAC")	Victorian Government-owned organisation who manages the Victorian transport accident scheme for the benefit of the general public.
Treatment claims costs	Refers to the costs of treatment expenses including public hospital costs and private medical costs. Public hospital costs include ambulance costs, medical and other allied health costs delivered to the patient while in the public hospital. Private medical costs include all hospital, medical and allied health costs after the claimant leaves the public hospital system
Type of payment	Another term for HOD benefit type that can form a claim payment to an injured person e.g. loss of earnings, treatment, care and quality of life
Underwriting or policy year	The year the CTP policy was sold.
Unearned premium surplus	Unearned premium is the portion of premiums written that have not yet been earned over the policy term. Since premium is earned regularly over the life of a policy, a reduction in expected claims costs as a result of moving to a new model will result in a surplus in unearned premium
Uninsured vehicle	A motor vehicle is an uninsured vehicle if no CTP policy has been taken out

2. Introduction, scope and benefit design

2.1 Introduction and scope

The Chief Minister's Treasury and Economic Development Directorate has requested Ernst & Young (EY) to provide estimated costings of alternative insurance scheme benefit design models for the ACT Compulsory Third Party (CTP) Scheme. These costings will be presented to a Citizens' Jury considering how the ACT CTP scheme can be improved to best balance the interests of all road users.

The scope of our role is to provide an assessment of the cost of the four proposed alternative model designs for the ACT CTP scheme as developed by the scheme designer with the Stakeholder Reference Group, compared to the premium of the current ACT CTP scheme. That is, a breakdown of the overall premium or estimated cost for each alternative benefit design to derive an estimated risk premium (i.e. claims cost) by payment type plus loadings for insurer expenses and profit, scheme levies and GST. The split of the current cost or premium for the ACT CTP scheme serves as a baseline for the scheme and is used as a comparison when assessing the new benefit design against alternative model designs.

Under all models, an estimate of the relative cost is only presented for the passenger vehicle class (i.e. class 1).

This report explains the data, assumptions and methodology used to derive the costing for the current scheme and each of the four proposed model designs. It also contains a number of metrics that flow from the costings that the Citizens' Jury can use to assess each model in their deliberations. This report should be read in conjunction with the report prepared by the scheme designer, which outlines the detail of the four proposed alternative model designs for the ACT CTP scheme.

2.2 Citizens Jury

In late August 2017, the ACT government announced a review of the CTP scheme by setting up a 'deliberative democracy' process. Once the 50 citizens' jury members (the jury) were randomly selected by the facilitators, the jury met during two weekends in October. The jury issued a report on 29 October 2017 titled "Citizens' Jury on Compulsory Third party Insurance Final report" (the jury's report) setting out the objectives it had agreed for a reformed CTP scheme to best balance the interests of all road users.

Since the jury's report was issued the 'scheme design expert', Geoff Atkins of Finity Consulting, has prepared four possible scheme designs for the jury to consider as set out in the report "Model Designs - Citizens' Jury for ACT CTP scheme", dated 9 March 2018 (referred to as the scheme design in this report). His work was undertaken in close consultation with the Stakeholder Reference Group (SRG) and EY. The SRG's role and responsibilities under the deliberative democracy process include model development, identifying witnesses, appearing as witnesses (where appropriate), providing evidence and advice, and building understanding and awareness of the jury process in the wider community. There are 10 members of the SRG comprising of two representatives from the health industry, two legal profession representatives, a single representative from each of the ACT CTP insurers (IAG and Suncorp), two representatives from government, the scheme design expert and EY. It is recognised that not all SRG members supported all aspects of the design options presented in the scheme design report.

EY's role is to produce an estimated cost of the four proposed model designs set out in the scheme design expert's report and to compare the cost to the existing premiums in the ACT CTP scheme. This report sets out the results of our work as noted above.

At the final citizen's jury meeting in late March 2018, the jury will consider the four proposed model designs and the associated cost estimates set out in this report and decide which of the four models

best meets the objectives they identified in their October 2017 jury's report. The Government will pursue the jury's preferred model.

The ACT government set out some constraints of the design of the scheme design models options as follows:

- ▶ Premiums are not to increase over current levels
- ▶ No change in type of vehicles covered (e.g. not to include off road bikes, bicycles)
- ▶ The review excludes the design of the Lifetime Care and Support scheme (LTCS scheme)
- ▶ The scheme will continue to be underwritten by private insurers.

2.3 Nature of cost estimates presented in this report

2.3.1 Existing scheme costs

For the existing scheme we have not undertaken a ground up estimate of the current ACT CTP scheme claims costs and overheads. Instead we used the existing premiums charged by the insurers as the basis of the current scheme costs. To be able to undertake a detailed comparison of existing scheme costs against the four model designs the average cost of claims component in insurers' current premiums has been split by type of payment based on the historical ACT CTP scheme experience (which has been relatively stable in recent years). Insurer expenses and profit margins have been taken from insurer's existing premium filings to the ACT CTP Regulator. To the extent that the existing scheme's future development differs from past claims experience, this development has not been incorporated in the costings. For a full discussion on the uncertainty in the costings see Section 5.

2.3.2 Four proposed model designs

The four proposed model designs are outlined in Finity Consulting's report "Model Designs - Citizens' Jury for ACT CTP scheme", dated 9 March 2018. We present a summary of the four proposed model designs in section 2 of this report and further detail is included in the above report.

The cost per policy results for the four proposed model designs presented in this report:

- ▶ Represent the average cost for all passenger vehicles (from approximately 290,000 registered vehicles)
- ▶ Reflect a mature scheme where motorists and the general public are fully aware of their rights under the Scheme, relationships between the service providers are well established and the infrastructure of the regulator is fully operative. This means that the estimated cost of the four model designs in the first few years may be different (i.e. likely lower) than our cost estimates (as discussed below and described further in Section 0)
- ▶ Do not represent the premium that will actually be charged in the four model designs since:
 - ▶ Premiums are set by licensed insurers who operate in the ACT CTP Scheme within the guidelines set by the ACT CTP Regulator; these guidelines aim to ensure that premiums fully fund the reasonable cost of claims, expenses and a reasonable insurer profit margin (i.e. profits are not inadequate) and that premiums are not excessive. In the ACT, insurers operate competitively and are allowed to offer different prices based on the class of vehicle (i.e. no other risk factors can be used by insurers to vary vehicle owner premiums)
 - ▶ The estimated cost is the average for all passenger vehicles which by definition means the actual cost for some vehicle owners will be higher than the average cost and the actual

cost for others will be lower than the average cost. This arises from the different premiums charged by each insurer

- ▶ The estimated cost in the four model designs does not allow for the treatment of any unearned premium surplus arising for insurers following the transition to the selected model design (see Section 4.3.2 for further details)
- ▶ There may be other factors that the ACT CTP Regulator will take into account in guiding insurer premiums during the first few years of the new Scheme. The premium guidelines will determine the actual premiums individual vehicles owners pay in the new Scheme
- ▶ In the first few years of the new Scheme it is possible the volume of claims will be lower than assumed for both not at-fault and at-fault drivers; this could mean that the cost for each of the four model designs in the first few years is lower than the estimated cost set out in this report. Refer to Section 0 for more details
- ▶ 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 in this report are based will result in changes to the estimates of the cost per policy and ultimately the premiums vehicle owners pay
- ▶ The existing LTCS Scheme is excluded from the deliberative democracy process. The most seriously injured road users will continue to be supported by the LTCS Scheme in its current form.

As noted in Section 1.6.2 below and Section 5 there is considerable uncertainty in estimating costs for a new CTP scheme and it is possible that the actual average cost per policy in the first few years of the four model designs will be higher or lower than our estimated costs set out in this report excluding the impact of factors extraneous to the reforms (e.g. changes in interest rates, changes in state/federal government taxes, changes in ACT road accident crash rates, etc.). Past experience of reforms to personal injury schemes such as CTP and workers compensation in Australia and internationally, indicates that the cost for the first few years of a scheme are typically lower than the estimated cost. The reasons for this are set out in Section 5 of the report.

2.4 Jury's scheme objectives and priorities

The jury's report set out the objectives it agreed on and listed them in the following order of priority:

7. Early access to medical treatment, economic support and rehabilitation services
8. Equitable cover for all people injured in a motor vehicle accident
9. A value for money and efficient system
10. Promote broader knowledge of the scheme and safer driver practices
11. Implement a support system to better navigate the claims process
12. A system that strengthens integrity and reduces fraudulent behaviour

We have calculated and included a number of metrics are derived from the costing and directly address the first three objectives above. The purpose of showing these metrics is to assist the jury assess each of the four design scheme models. In addition we have included other metrics that will assist the jury assess the impact each has on claimants that we have found useful in other CTP reforms. These metrics are summarised below and in Section 4.1.1 of the report.

2.5 Structure of this report

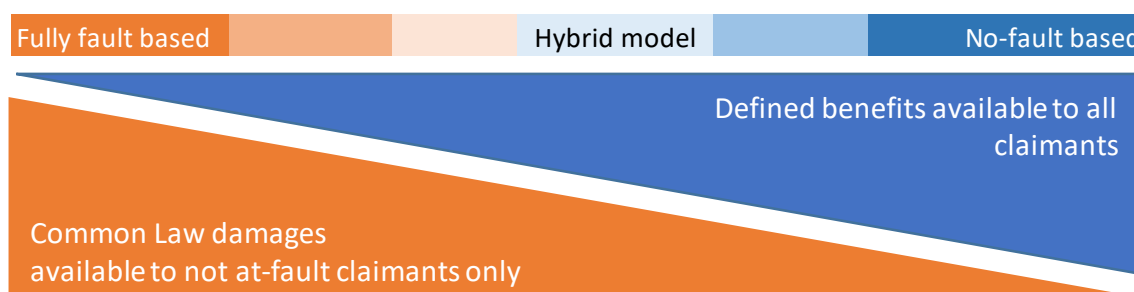
This report consists of the following sections:

- ▶ Section 1 sets out the executive summary. A glossary of terms is included at the end of the executive summary
- ▶ Section 2 sets out the scope of our work, background, a summary of each of the four model designs and the benefit design of the current scheme
- ▶ Section 3 documents the data, approach and key assumptions adopted to estimate the current average passenger vehicle CTP premium breakup for the current ACT scheme and the four model designs, including a split of the claims cost by payment type, insurer expenses, profit margins and various levies
- ▶ Section 4 sets out the results of the costing of the four model designs compared to the current scheme premium breakup. It also includes the results of the metrics of each model and a discussion of the results.
- ▶ Section 5 considers risks and uncertainty - a discussion of the sources of uncertainty in the costing results
- ▶ Section 6 sets out the reliances and limitations of this report.

2.6 Spectrum of personal injury insurance models

Different models exist for personal injury insurance products like CTP and workers' compensation around Australia and internationally. In Australia, the models vary on a spectrum between fully fault based where only not at-fault claimants can receive benefits as common law damages (e.g. the current ACT CTP scheme) to a no-fault based model where generous defined benefits are available to all with very restricted common law available (e.g. the Victorian CTP scheme). A combination of both models, i.e. defined benefits with access to common law limited to (typically) more seriously injured claimants is known as a hybrid model (e.g. the new NSW model). There are overseas schemes which have no common law (e.g. New Zealand) but none exist in Australia.

Chart 20: Spectrum of insurance models



The four model designs proposed by the scheme designer vary across this spectrum. Models A and B are mostly fault based models, with some defined benefits available to all but the majority of not at-fault benefits are paid at common law. Models C and D are closer to the no-fault end of the spectrum with extensive defined benefits available to all and with restrictions for accessing common law damages.

2.7 Model designs

The analysis and results shown in this report reflect the following benefit design elements for the current ACT scheme and the four proposed model designs (Model A, Model B, Model C and Model D).

2.7.1 ACT Scheme design

The ACT CTP Scheme is primarily fault based, whereby the injured person must establish that their injuries were caused by the fault of another vehicle owner or driver before they can claim benefits. The benefit is only paid out to the not at-fault party, with the wholly at-fault party not being eligible to claim compensation under the scheme. If the injured party was partly at-fault, this is taken into account in the negotiation process between the injured party and the insurer. The injured party partly at-fault may be eligible for compensation, although at a reduced rate due to contributory negligence. Compensation cannot be claimed under the scheme if the injured party is involved in an accident which is found to be no one's fault ('blameless accident'), such as a collision with wildlife. Where fault can be established, the types of benefits not-at-fault injured parties can claim for include treatment and care costs, loss of earnings and general damages.

There is a limited benefit component in the current scheme which allows the injured party to recover early treatment and care expenses of up to a maximum limit of \$5,000 using a Motor Accident Notification Form (MANF). This is generally available to any person who has sustained injury as a result of a motor accident and is payable regardless of who is at fault.

Under the current scheme, most claim settlement amounts are determined primarily under modified common law provisions defined in the *Road Transport (Third Party Insurance) Act 2008* (CTP Act), and paid as a lump sum either following negotiation between the injured party and the insurer (representing the at-fault party), or in in court proceedings.

From 1 July 2014, those who are catastrophically injured in an accident can access treatment and care benefits through the ACT LTCS scheme, however these costs are not part of the standard CTP claim and thus do not fall under the ACT CTP Scheme.

Table 21: Current ACT scheme benefit design

Benefit type	Summary of Current scheme design
Overview	All benefits (excluding Motor Accident Notification Form's) are accessed through common law and are in the form of lump sums Contributory negligence (not prescribed) may apply to awards (but not to MANFs) if the claimant partly contributed to the cause of the accident.
Loss of earnings lump sum benefits (i.e. loss of earnings)	▶ For not at-fault claimants, 100% of past and future loss of earnings or the deprivation or impairment of earning capacity ▶ There is a cap of three times Average Weekly Earnings.
Treatment (medical, rehabilitation and allied health) and care (domestic services)	▶ All past and future costs are recoverable ▶ Costs of gratuitous care are compensable ▶ Public hospital costs (excluding ambulance costs¹) are covered by the scheme ▶ For at-fault claimants, limited to a maximum of \$5,000 incurred in the first 6 months after an accident (i.e. MANFs).
General damages	▶ Available to not most at-fault claimants only ▶ No caps or thresholds for GDs.
Legal service fees	▶ Party-party legal costs recoverable from insurers by legal practitioners ▶ Solicitor-client costs charged by the solicitor to the claimant for their legal services and paid out of settlement ▶ Party-party and solicitor-client fees are capped at \$10,000 (inclusive of GST) for claims which settle below \$50,000. No caps on legal fees for higher settlements.
Death benefits	▶ Compensation to Relatives Act applies including funeral expenses for not-at-fault claimants ▶ Funeral expenses are not available to at-fault claimants.

1 Ambulance costs are funded by a levy payable at the time of registering a vehicle

2.7.2 Proposed four model designs

The four model designs proposed by the Scheme Designer are outlined in the report "Model Designs - Citizens' Jury for ACT CTP scheme" by Finity, dated 9 March 2018. The models (Model A, Model B, Model C and Model D) progressively transition away from the fault based nature of the current ACT scheme towards a no fault hybrid scheme structure as they all include some degree of benefit for all people injured in an accident regardless of fault. Similar to the current scheme, injured parties can claim benefits for treatment, care, loss of earnings, general damages and death. The proposed model designs also cover any plaintiff legal costs incurred by the injured party (both party-party and solicitor-client costs) as well as defendant and investigation costs.

When progressing from Model A to Model D, the level of defined benefits (available for all) becomes more extensive while common law entitlements (for not at-fault only) become more restrictive.

Model A is the closest in design to the current scheme, with the least defined benefits and modifications to common law. Model B has a similar design to Model A but with more extensive defined benefits. For both models the most significant modification to common law is the introduction of the Injury Scale Value (ISV) method for assessing amounts of general damages for less seriously injured claimants (defined as claimants with an ISV below 15, out of 100).

Table 22: Comparison of Model A and Model B designs

Benefit type	Model A	Model B
Defined benefits - available to all regardless of fault	Treatment and Care: ➤ Limited to 6 months ➤ Paid care only Loss of earnings: ➤ 95% of pre-injury earnings for first 3 months, 80% thereafter ➤ Low income adjustment - allows greater than 95%/80% for low earners ➤ Maximum weekly cap of \$2,250 applies ➤ Up to a maximum of 6 months from the date of accident Quality of life: ➤ Nil Death: ➤ Reasonable funeral costs (max \$15,000) Legal fees: ➤ Event based fees	Treatment and Care: ➤ Limited to 12 months ➤ Paid care only Loss of earnings: ➤ 95% of pre-injury earnings for first 3 months, 80% thereafter ➤ Low income adjustment - allows greater than 95%/80% for low earners ➤ Maximum weekly cap of \$2,250 applies ➤ Up to a maximum of 12 months from date of accident Quality of life: ➤ Nil Death: ➤ Reasonable funeral costs (max \$15,000) plus lump sum of \$50,000 if there are dependants Legal fees: ➤ Event based fees
Common law - available to not at-fault claimants only who have progressed to a common law claim if they see their defined benefits as not having met their needs	Treatment, Care and Loss of earnings: ➤ Unlimited past & future costs paid, after taking into account defined benefits already received ➤ EL paid at 100% of past loss of earnings (LOE) and future loss of earnings capacity (LOEC), including superannuation ➤ Gratuitous care included ➤ Similar to current scheme General Damages: ➤ ISV¹ scale of benefits for claimants with an ISV less than 15, see Appendix A for scale ➤ Same as current common law provisions for claimants with an ISV greater than or equal to 15 Death Benefits: ➤ Funeral costs plus common law damages for dependants Legal costs: ➤ As per current scheme levels and existing regulation	Treatment, Care and Loss of earnings: ➤ Unlimited past & future costs paid, after taking into account defined benefits already received ➤ EL paid at 100% of future LOEC, including superannuation, excluding the first 12 months of past LOE ➤ Gratuitous care included on the 6hrs/6mths rule ➤ Similar to current scheme General Damages: ➤ Same as in Model A, but lower benefits at each ISV (where less than 15), see Appendix A for scale Death Benefits: ➤ Funeral costs plus common law damages for dependants Legal costs: ➤ As per current scheme levels and existing regulation

1 Note that the ISV scales used in Model A and Model B are determined on an AMA5 basis

Models C and D significantly extend the defined benefits available to 5 years and are more similar to the Victorian and the new NSW CTP schemes. Additionally, unlike in Models A and B, the defined benefits available include a quality of life lump sum based on a Whole Person Impairment (WPI)

scale which has a maximum benefit of \$350,000 (see Appendix A for scale). Subject to a threshold of WPI of 5% or over, all injured parties regardless of fault can access this benefit.

General damages under common law are specified in a scale based on WPI (Appendix A) instead of ISV, with a threshold of 10% WPI or over.

Model D is very similar to Model C in terms of design. The only significant difference is additional restrictions at common law for claimants with less than 10% WPI.

Table 23: Comparison of Model C and Model D designs

Benefit type	Model C	Model D
Defined benefits - available to all regardless of fault	Treatment and Care: ➤ Limited to 5 years ➤ Paid care only Loss of earnings: ➤ 95% of pre-injury earnings for first 3 months, 80% thereafter for up to 2 years, or up to 5 years if WPI 10% or greater from date of accident ➤ Low income adjustment - allows greater than 95%/80% for low earners ➤ Maximum weekly cap of \$2,250 applies Quality of life: ➤ Lump sum up to a maximum of \$350,000 using WPI¹ scale, accessible only for WPI greater than or equal to 5% Death: ➤ Reasonable funeral costs (max \$15,000) plus lump sum of up to \$250,000 if there are dependants Legal fees: ➤ Event based fees	Treatment and Care: ➤ Limited to 5 years ➤ Paid care only Loss of earnings: ➤ 95% of pre-injury earnings for first 3 months, 80% thereafter for up to 5 years from date of accident ➤ Low income adjustment - allows greater than 95%/80% for low earners ➤ Maximum weekly cap of \$2,250 applies Quality of life: ➤ Same as for Model C Death: ➤ Reasonable funeral costs (max \$15,000) plus lump sum of up to \$350,000 if there are dependants Legal fees: ➤ Event based fees
Common law - available to not at-fault claimants only who have progressed to a common law claim if they see their defined benefits as not having met their needs	Treatment, care and Loss of earnings: ➤ Unlimited past & future costs paid, after taking into account defined benefits already received ➤ EL paid at 100% of future LOEC, including superannuation, excluding the first 12 months of past LOE ➤ Gratuitous care included (with limitations on the 6hrs/6mths rule) ➤ Similar to current scheme General Damages: ➤ Limited to claimants with a WPI of 10% or greater ➤ Up to a maximum of \$500,000 using a WPI¹ scale Death Benefits: ➤ Funeral costs plus common law damages for dependents Legal costs: ➤ As per current scheme levels and existing regulation	Treatment and Care: ➤ Limited to claimants with a WPI of 10% or over ➤ Gratuitous care not paid Loss of earnings: ➤ Limited to claimants with a WPI of 10% or over ➤ Paid at 100% of future LOEC, including superannuation, excluding the first 12 months of past LOE General Damages: ➤ Same as in Model C Death Benefits: ➤ Funeral costs plus common law damages for dependents Legal costs: ➤ As per current scheme levels and existing regulation

¹ Note that the WPI scales used in Model C and Model D are calculated on an AMA5 basis.

The analysis and results shown in this report reflect the above benefit design elements for the four model designs.

3. Data, approach and key assumptions

This section describes the data, approach and key assumptions used to estimate the cost per policy and average premium for the current Scheme and model designs for the policies written from 1 July 2017 to 30 June 2018 (i.e. underwriting year 2017/18).

The costing results assume a mature scheme environment where the motorists and the general public are fully aware of their rights under the scheme, relationships between insurers and medical and allied health providers are well established and the general infrastructure of the ACT CTP Regulator and insurers is fully setup.

Prior to this period, for example in the first few years of a new model it is possible the volume of claims will be lower than assumed in our costings. This could mean that claim costs in the first few years of a new model maybe lower than our estimated results. The length of time it takes for a new model to become mature will determine how quickly the true cost of the model will materialise. A more detailed description of this effect is described in Section 4.3.1.

For the current scheme and model designs, we initially estimated the average cost per policy on a scheme basis, and then adjusted for the passenger vehicle relativity under each model to arrive at an average passenger vehicle premium.

3.1 Data

To prepare the estimated costings for the model designs compared to current scheme premium we used data from a range of sources including various state scheme regulators and road authorities, as well as the Australian Bureau of Statistics. The data has been summarised by source in the sections below.

3.1.1 ACT

- ▶ Personal injury register (PIR) data for ACT- as at June 2017
 - ▶ This is a database of the CTP claims in ACT from accident years 2009 onwards, with details including payments, injuries and other claim specific attributes
- ▶ Monthly vehicle registration reports as at June 2017
 - ▶ The vehicle data shows the current and historical levels of registered vehicles in ACT as a measure of exposure in our analysis
- ▶ Crash data compiled by the Transport Canberra and City Services (TCCS) as at December 2017
 - ▶ This provides information on the number of reported crashes in the ACT, the vehicles involved and the casualties arising from these crashes
- ▶ Ambulance data compiled by the ACT ambulance service
 - ▶ Number of persons injured as a result of accidents in ACT that required ambulance transport to hospital for various years
- ▶ Analysis of claims cost by head of damage, legal representation status, injury severity, claim duration done by the ACT CTP Regulator as well as the definitions used for the Abbreviated Injury Scale (AIS)
- ▶ Hospital data compiled by ACT Health
 - ▶ Number of presentations to ACT emergency departments as a result of a traffic accident

- ▶ IAG & Suncorp Comprehensive Motor Insurance crash and claims data for ACT as at June 2016
- ▶ Other analysis requested from individual insurers.

3.1.2 NSW

- ▶ NSW PIR and claims cost disclosure (CCD) data - as at August 2017
 - ▶ The PIR is a database of the CTP claims in NSW from accident years 1990 onwards, with details including payments, injuries and other claim specific attributes
 - ▶ The CCD database keeps record of the actual legal expenses paid to plaintiff lawyers representing claimants and the net amount of settlements received by claimants. The difference between the legal costs shown in the NSW PIR data and the CCD represents the solicitor-client plaintiff lawyer legal fees²
- ▶ NSW Road and Maritime Services (RMS)
 - ▶ Vehicle registration by class data for the state of NSW - as at June 2017
- ▶ NSW Centre for Road Safety (CRS)
 - ▶ Aggregate casualty data for the state of NSW - as at December 2015
- ▶ NSW workers compensation data for selected items (e.g. medical fee levels)

3.1.3 Victoria

- ▶ Transport Accident Commission (TAC) risk premium
 - ▶ Projected claim costs per vehicle by the TAC Scheme actuaries for the underwriting year 2015/16
- ▶ TAC claims data - Institute for Safety, Compensation and Recover Research (ISCRR) data
 - ▶ Transactional payment data as at December 2015 relating to claims paid under the TAC Scheme since 1992
- ▶ VicRoads data
 - ▶ Exposure and casualties data for the state of Victoria - as at June 2015

3.1.4 Queensland

- ▶ Queensland PIR data from the Motor Accident Insurance Commission (MAIC) - as at September 2017
 - ▶ The PIR is a database of the CTP claims in Queensland from accident years 1995 onwards, with details including payments, injuries and other claim specific attributes
- ▶ Vehicle registration numbers and casualties data from Department of Transport and Main Roads - as at June 2017

² Costs payable to the legal practitioner representing the claimant, by the claimant under an agreed private arrangement i.e. those costs in excess of party-party costs recorded in the PIR

3.1.5 Other

- ▶ Australian Bureau of Statistics (ABS)
 - ▶ The series of Average Weekly Ordinary Time Earnings (AWE) for full time adults for ACT is used to inflate historical payments in the PIR to 30 June 2017, while the AWE for Victoria is used for wage relativity purposes within the Loss of earnings model.
- ▶ Rate filings for NRMA effective July 2017, GIO effective February 2017, AAMI and APIA effective July 2017
 - ▶ These premium filings provide additional information on claims costs, frequency projections, insurer expenses and loadings, insurer profit margins, levies and premium relativities
 - ▶ They also form the basis of our long term inflation and discounting assumptions
- ▶ “Model Designs - Citizen’s Jury for ACT CTP Scheme”, dated 9 March 2018, prepared by Geoff Atkins of Finity Consulting
 - ▶ This document contains a description of the four model designs to be costed.
- ▶ Costing models, analysis and results previously prepared by EY for the development of the new NSW scheme.

3.2 Current ACT scheme premium

For the existing scheme we have not undertaken a ground up estimate of the current ACT CTP scheme claims costs and overheads. Instead we used the existing premiums charged by the insurers as the basis of current scheme costs. We split the average cost of claims component in insurers’ premium filings by type of benefit based on the historical payments in the ACT CTP scheme. Given the stability of the claims experience, this was a pragmatic approach to produce reasonable cost estimates by benefit type.

This approach consisted of the following steps:

- ▶ Extract the latest payments from the ACT PIR as at 30 June 2017 - a database of all historical payments under the scheme since 2008/09, as well as the latest claims header extract as at 30 June 2017 which shows summarised information for each claim since the claims was reported
- ▶ Inflate the historical payments in the payments file to current values as at 30 June 2017 in line with movements in the Average Weekly Earnings (“AWE”) index for all persons’ total earnings in ACT as published by the Australian Bureau of Statistics. This reduces the possibility that past fluctuations in the rate of wage inflation could distort the analysis
- ▶ Categorise all individual payments into each head of damage, i.e. loss of earnings, general damages, treatment & care and legal costs over the period using the payment descriptions provided with the PIR data
- ▶ Exclude costs that would have otherwise been transferred to LTCS had LTCS been in place at the time, as such costs are not a feature of the current CTP Scheme. The impact of this is a small reduction in overall claims cost by approximately 2%. (LTCS was recently introduced in 2014 and the low casualty frequency in the ACT means there are few expected participants.)
- ▶ Account for solicitor-client legal costs in the overall claims costs. The assumptions and approach used for these costs is explained in Section 3.2.2 below.

- ▶ In light of both mature years' experience (e.g. 2010) and recent years' experience (e.g. 2017), select a representative proportion of claim costs for each head of damage in the 2017/18 underwriting year.
- ▶ Apply these proportions to the average 2017/18 risk premium (i.e. claims costs) filed by insurers to split into estimated claims costs by head of damage
- ▶ Allow for average insurer expenses, levies and other scheme costs (as per the insurers' filings) to make up the current average CTP premium
- ▶ Apply the passenger vehicle class relativity factor (about 94%) to derive the current passenger vehicle (i.e. class 1) premium in the ACT.

3.2.1 LTCS Claims

From 1 July 2014, treatment and care costs for road users who suffer catastrophic injuries are managed by the ACT LTCS scheme. The costs in relation to those catastrophic injuries are not part of a CTP claim and thus are not covered by the Scheme.

The PIR data includes LTCS-equivalent claims and all associated payments prior to 1 July 2014 which are no longer relevant to the current scheme (nor any of the model designs). Hence in our costing analysis we have excluded claim costs for treatment and care which would otherwise have been transferred to LTCS prior to 2014. The impact of excluding these claims is a reduction in overall claims cost of approximately 2%.

3.2.2 Solicitor-client legal costs

Solicitor-client legal costs (as described in section 3.1) are payable by claimants in the ACT out of the common law settlement or judgement (i.e. they are not directly paid by insurers to claimants) and hence are not recorded in the ACT PIR. There is currently no mechanism for capturing these costs in the ACT, unlike in NSW where the CCD was introduced to record these and other claim details. Based on advice we have received which was confirmed by SRG participants, law firms in the ACT run a similar business model to NSW and charge similar total legal fees. Hence we have made the assumption that total legal fees (i.e. the sum of party-party and solicitor-client fees) as a proportion of total claims costs in both states are at a similar level. To estimate the solicitor-client component therefore, we have assumed that the difference between party-party fees in the ACT PIR and total legal fees in the NSW CCD represents solicitor-client fees in the ACT. This represents approximately 9% of claims costs, after allowing for the different mix of claims by settlement size in the ACT.

The sum of the party-party and our estimate of solicitor-client fees are used to estimate total legal fees in the current ACT scheme. These results are used to estimate the total legal fees for some metrics set out in section 4 including scheme efficiency and average legal fees per legally representative claims. We have also separately identified our estimated solicitor-client fees at the bottom of the detailed costing results in Appendix B for the current scheme and also each of the design models.

3.2.3 Insurer expenses, insurer profits and nominal defendant levy

Insurer expenses (including policy acquisition, claims handling and net reinsurance expenses) are an additional loading on top of the estimated claims cost per policy based on recent insurers' average filling assumptions. An industry profit margin of 9.5% of insurer premiums (excluding GST) has been adopted for the prospective underwriting period based on recent insurer premium rate filings.

A nominal defendant levy of approximately 5% of not at-fault claim costs (as per the current scheme) has also been applied to the insurer risk premiums (excluding GST) or about \$20 per policy for passengers.

3.3 Model Designs

Our approach to the costing is formed by a few distinct methodologies. For almost all defined benefits under each model we used the Victorian TAC scheme data as the starting basis for estimating claim costs. For common law under each model we used the current ACT scheme experience and premium rates as a basis, adjusted in line with specific elements under each model design. Finally, where a scale of benefits was outlined in the model design (e.g. general damages, quality of life, death benefit, etc.) an approach that separately considers the number of claims accessing the head of damage and the corresponding size of benefit per claim accessing the head of damage, referring to other scheme experience where relevant.

3.3.1 Approach to estimating cost per policy for defined benefits

Each of the model designs incorporate defined benefits for all claimants regardless of fault. This type of benefit structure has been operating for around 30 years in the TAC scheme in Victoria with very stable claims experience. This data forms a suitable basis for estimating the cost of defined benefits under the models after adjusting for specific features of the benefit designs (e.g. limited period of 6 months, 12 months, etc.). This methodology is also consistent with the approach EY used to cost the new NSW scheme, where defined benefits were introduced as part of a hybrid model structure.

The TAC Scheme claims cost estimates (i.e. breakeven premium per vehicle) were used to estimate the cost per policy for almost all defined benefits under each model including treatment, care and loss of earnings for both not at-fault and at-fault claimants. Several adjustments were made to the claims experience in order to convert it to an ACT CTP claims environment. This included adjustments to exclude claims costs for equivalent claims covered under the ACT LTCS scheme and other differences between each state such as average weekly earnings, private medical and allied health fee levels, number of casualties, etc. Finally, specific adjustments were made to each model's costs to align with the relevant benefit design.

The steps taken to adjust the TAC risk premium (i.e. claims cost) to an ACT basis tailored to each model design is as follows:

- ▶ Deduct the cost of claims which would fall under the LTCS scheme in the ACT, as in Victoria these are covered by the CTP scheme
- ▶ Allow for higher fee rates in the ACT for private medical and allied health services (based on a comparative analysis of fee rates and payments in each state)
- ▶ Allow for higher wage levels in the ACT compared to Victoria for loss of earnings benefits
- ▶ Allow for estimated differences in the distribution of claims frequency in the ACT compared to Victoria (i.e. number of casualties, claims and the proportion of at-fault and not-at-fault claimants in each state).

Table 4 provides a summary of costing approaches using the TAC breakeven premium and TAC claims data as the input. We have assumed that the TAC Scheme estimated breakeven premiums truly represent a central estimate of the TAC Scheme cost. Any under or over estimation of the TAC Scheme breakeven premium will lead to a corresponding under or over estimation of our costing results. This risk is partly mitigated because the TAC Scheme is well established with stable historical experience and the claims cost per policy has been estimated by TAC scheme actuaries who perform this analysis annually and are familiar with the features of the TAC scheme.

Table 24: Defined benefit costing approaches - TAC scheme basis

Defined Benefit type	Summary of costing approach - TAC scheme basis
Income replacement	Claims costs are estimated from the TAC risk premium as follows: ▶ We used the mix of casualties in the ACT to determine the split between at-fault and not at-fault claims and applied these proportions to adjust the total TAC risk premium ▶ 6 months, 1 years and 5 years of payments data were used to determine the claim costs for Models A, B, and C/D respectively ▶ An adjustment factor is applied in Model C after 2 years to account for the WPI threshold ▶ Adjustments were made to align the pre-injury average weekly earnings to the ACT basis ▶ A maximum weekly past and future loss of earnings benefit of \$2,250 was also assumed.
Treatment (private medical costs)	Claim costs were derived from TAC risk premium with the following adjustments: ▶ We used the mix of casualties in the ACT to determine the split between at-fault and not at-fault claims and applied these proportions to adjust the total TAC risk premium ▶ 6 months, 1 year and 5 years of payments data was used to determine the risk premium for Models A, B, and C/D respectively. ▶ We excluded equivalent claims covered under the ACT LTCS scheme from the TAC scheme claims cost ▶ We adjusted the claims cost to allow for higher private medical fees in ACT compared to Victoria: ▶ The TAC scheme has centralised fee schedules for treatment providers and has a centralised consistent treatment regime. ACT insurers and the ACT CTP Regulator will have to control these costs under the new model at the cost levels which we have assumed to ensure that treatment claims costs are contained within our cost allowance ▶ Upon discussion with the ACT CTP Regulator, it was found that medical fee levels in ACT for private medical and related services were similar to NSW, and so we adopted the same medical fee relativity for converting the TAC risk premium to an ACT basis ▶ Our analysis done previously for the new NSW scheme showed that the fee levels in NSW were higher than the TAC fee levels by about 45%, so we applied a loading of 45% over Victorian scheme costs to allow for higher medical fee rates in NSW, based on analysis of data for the NSW workers compensation scheme ▶ The actual treatment cost of claims may vary from our cost estimates depending on the variation of the content of the guidelines published by the ACT CTP Regulator ▶ No reduction of treatment costs was allowed for contributory negligence.
Treatment (public medical costs)	▶ Public hospital costs were based on the NSW bulk billing fees increased by 10% to allow for the higher fees in public hospitals in ACT than NSW ▶ Ambulance costs were excluded as there is a separate levy included in the ACT vehicle registration fees which funds those costs
Care	Care claim costs were derived from TAC risk premium with the following adjustments: ▶ We used the mix of casualties in the ACT to determine the split between at-fault and not at-fault claims and applied these proportions to adjust the total TAC risk premium ▶ 6 months, 1 year and 5 years of payments data was used to determine the risk premium for Models A, B, and C/D respectively. ▶ We excluded equivalent claims covered under the ACT LTCS scheme from the TAC claims cost ▶ Based on analysis we have performed comparing current attendant care rates in Victoria and ACT, we assumed the cost of care is similar in both states and hence no cost adjustment is required

	▶ No reduction of care costs was allowed for contributory negligence.
Legal costs	Legal costs related to defined benefits are expected to be limited and on the basis of work performed ▶ TAC legal costs were initially used as a reference point adjusted for differences in the potential level of litigation in each state. As the level of defined benefits increases under each model, legal costs are assumed to increase per defined benefit claim ▶ We have assumed an additional cost under each model to allow for proposed dispute resolution mechanisms, including the introduction of a panel ▶ Overall our assumption is consistent with lower legal cost for defined benefits in a hybrid scheme than under a fully common law scheme.

For models C & D, the quality of life (QOL) benefit design specifies a scale of benefits for claimants who have a Whole Person Impairment (WPI) of 5% or greater (amounts are outlined in Appendix A). We took a ground-up approach to estimating the cost per policy, by estimating the number of eligible claims and the expected amount per claim.

All models include a defined benefit for funeral costs under the death benefit type. Again we took a ground-up approach to estimating the expected cost per policy.

Table 25: Defined benefit costing approaches – specified scale basis

Defined benefit type	Summary of costing approach – specified scale basis
Quality of life (QOL)	Defined benefits for Models C & D were costed by estimating the number of claims receiving benefits and multiplying that by the estimated average benefit received: ▶ A claim number distribution by WPI under an AMA5 basis was estimated based on the claims experience of the Queensland CTP scheme which adopts an ISV scale for general damages at common law. The basis of the ISV scale in Queensland is heavily based on a WPI scale ▶ Specialist medical advice was sought to determine the proportion of claimants in the scheme who are likely to have a WPI of at least 5% or higher (i.e. the threshold for receiving this benefit) ▶ Claim amounts are based on a prescribed scale set by the scheme designer (shown in Appendix A). ▶ We assumed that not at-fault claimants with a WPI greater than or equal to 10% would make a common law claim for general damages as these benefits follow a more generous scale, hence we have not included these claimants in the cost of this benefit ▶ The estimated number of claims multiplied by the average benefit amount provides the basis for the cost per policy.
Death – funeral costs	▶ Funeral expenses are assumed to be capped at \$15,000 per claim (as in the NSW CTP scheme) ▶ Cost per funeral multiplied by 10 fatalities in the ACT gives the cost per policy provides the basis for the cost per policy.

3.3.2 Approach to estimating cost per policy for common law

Common law coverage varies significantly under each of the proposed models and in comparison to the current scheme. Models A and B are most similar to the current scheme with full access to benefits for not at-fault claimants after allowing for defined benefits already received. With the exception of general damages (where scaled benefits for most claimants represents a significant change) the total cost per policy (i.e. defined benefits plus common law) for most heads of damage in Models A and B is assumed to be similar to the current scheme for not at-fault claimants.

Consequently, we have used current scheme claim costs as the basis for common law costs under these models.

For Models C and D there are more significant changes to common law costs, mainly driven by changing behaviours under these model designs. The numbers of claimants expected to make a common law claim in these models is significantly lower than in the current scheme and the amounts awarded for damages are expected to be lower than for the same claims in the current scheme. The most significant factors driving this behaviour are:

- ▶ Generous defined benefits available (up to 5 years)
- ▶ Threshold for accessing general damages (10% WPI)
- ▶ Common law awards are net of defined benefits already received
- ▶ On average the proportion of common law claims relating to more seriously injured claimants should be higher (as the less serious claims receive defined benefits rather than common law).

Hence for Models C & D, the common law costs per policy are based on the number expected to make a common law and the resulting settlement size expected. As total costs for common law are expected to reduce, the reduced settlement sizes directly result in lower legal costs for common law claims in these models.

Where relevant for each model design, the average claim size expected for heads of damage under common law is based on the current ACT CTP scheme with allowance for trends in the NSW CTP scheme and/or the Queensland CTP scheme experience following the introduction of ISV for general damages or other benefit changes that are similar to the benefit changes in the design models.

Payments in relation to MANF claims have been removed from current scheme costs in accordance with the scope of the model designs. (This does not have a significant impact as the average claims cost for such claims is very low).

The approach adopted for common law costing for each benefit type is summarised in the table below.

Table 26: Common law costing approaches – ACT scheme basis

Common Law Head of damage	Summary of costing approach – ACT scheme basis
Loss of earnings	For Models A, B and C, common law costs are assumed to be the same as the current scheme at 100% of loss of earnings (LOE)/loss of earning capacity (LOEC) with no time limit. The following adjustments were also applied: ▶ Where defined benefits are already received, a top-up for superannuation (9.5%) for that period is assumed to be added to common law ▶ In Models B & C, costs are adjusted to exclude any payments not received as defined benefits during the first 12 months (as per the model designs) ▶ In Models A & B we increased the estimated costs for loss of earnings at common law to account for a “substitution” effect arising from lower general damage awards compared to the current scheme. Based on experience in the Queensland CTP scheme following the introduction of ISV, increases were observed in the amounts of loss of earnings awarded. It is likely that this was driven by the overall lower general damages being awarded for most claims. We anticipate a similar behaviour could arise in the ACT under the models where ISV is implemented. For Model D, loss of earnings awards are only available to those with a WPI of 10% or greater. Since the ACT scheme does not use the WPI scale, we used a sample of the largest 10-15% of claims in the current scheme (adjusted to include the proportion of earners only) to estimate an average claim size. To determine the numbers accessing loss of earnings at common law we considered NSW data where the 10% WPI threshold has proven relatively robust over many years. As the NSW scheme has some differences to the models proposed for the ACT, we made the following adjustments: ▶ Uplift to allow for claims with WPI <u>equal</u> to 10% (the threshold is more generous than NSW) ▶ Adjustment to reflect the AMA 5 basis for assessing WPI in the proposed models, in contrast to the AMA 4 basis in NSW based on specialist medical advice ▶ Allow for assumed casualty frequency differences between the ACT and NSW.
Treatment (private medical costs)	▶ In Models A, B and C, common law benefits are similar to the current scheme, and therefore we have used the current scheme's risk premium (excluding public hospital costs) reduced by the expected cost of defined benefits already paid for private treatment costs ▶ We have assumed a small reduction in these costs to allow for the behavioural effects associated with the implementation of ISV for general damages similar to the Queensland CTP scheme when ISV was introduced ▶ In Model D there is a 10% WPI threshold for accessing treatment at common law. Consequently costs are expected to be lower than Model C and similar to lifetime costs post 5 years for treatment in the TAC scheme
Care	▶ In Models A, B and C, common law benefits are similar to the current scheme, and therefore we have used the current scheme's risk premium reduced by the expected cost of defined benefits already paid for care ▶ We have assumed a small reduction in these costs to allow for the behavioural effects associated with the implementation of ISV for general damages similar to the Queensland CTP scheme when ISV was introduced ▶ In Model D there is a 10% WPI threshold for accessing care at common law. Consequently costs are expected to be lower than Model C and similar to lifetime costs post 5 years for care in the TAC scheme
Death	▶ In all models, common law death benefits are similar to the current scheme where compensation to relatives is paid. Hence we have used current scheme costs without adjustment
Legal costs	▶ Common law legal costs are based on the cost as a proportion of settlements in the current scheme. Common law legal costs reduce from

	Models A through to D driven by lower numbers of legally represented claims at common law and lower average settlement sizes. This is outlined further in section 3.3.3
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General damages at common law under every model is significantly different to the current scheme. Hence we have used a ground-up approach to estimating the cost of this head of damage at common law - based on the scaled amounts prescribed by the scheme designer and the numbers expected to receive this head of damage at common law under each model.

Table 27: Common law costing approaches - specified scale basis

Common Law Head of damage	Summary of costing approach - specified scale basis
General damages	For Models A and B, the design prescribes that ISV is used to determine general damages amounts as follows: ▶ Where ISV is determined to be less than 15, a prescribed scale of amounts applies (see Appendix A) ▶ Where ISV is determined to be 15 or over, the amount awarded follows the common law process. The proportion of claims falling into each cohort above and below an ISV of 15 is expected to be similar to the Queensland scheme, where ISV has been in place for 15 years. We assumed general damages for the claims with an ISV 15 or higher (i.e. 10% to 15% of claims) is based on the average received by the top 10-15% of claimants in the current scheme For Models C and D there is a threshold of 10% WPI for accessing general damages at common law. Costs are determined as follows: ▶ Claim amounts are based on a prescribed scale by WPI % as shown in Appendix A ▶ Number of claimants accessing general damages is based on the number with a WPI of 10% or greater. As per EL in these models, we considered NSW scheme data to determine the average number of claims p.a. (adjusted for the number of vehicles) where WPI is greater than 10% WPI. The following adjustments were also required: ▶ Uplift to allow for claims with WPI equal to 10% (the NSW threshold is less generous) ▶ Adjustment to reflect the AMA5 basis for assessing WPI in the proposed models, in contrast to the AMA4 basis in NSW ▶ Allow for assumed casualty frequency differences between the ACT and NSW

3.3.3 Legal costs for common law

In the current scheme, party-party, estimated solicitor-client and defendant & investigation legal costs under common law amount to a total of about 33% of claims costs. This percentage varies by settlement size - for smaller claims legal costs represent a higher proportion of settlement size than they do for larger claims. Hence the settlement size for common law claims under the model designs should determine the expected legal costs at common law and that may vary by model.

Under Models A and B, there are several offsetting effects on legal costs for common law claims. Firstly, the average size of common law claims is expected to decrease due to the availability of defined benefits and the significant reduction in general damages available also acts as a disincentive for making a common law claim. This effect was observed in the Queensland scheme following the 2003 reforms which introduced ISV.

However, a counteracting effect is that the claims that are made at common law are more likely to be for more seriously injured claimants with future treatment and/or care needs and with a greater likelihood to have a loss of earning capacity. This would have the effect of increasing the overall average common law settlement size.

As more than half of the claims in the current ACT scheme have an average claims size of a relatively low amount (less than \$50,000) we have assumed that the net impact on common law settlement size is negligible. Hence common law legal costs associated with these claims is unchanged as a proportion of settlements under these models.

Under Model C we expect a slightly different impact as under Models A and B, average settlement sizes are expected to reduce due to significant defined benefits paid and tougher restrictions apply for accessing general damages at common law (10% WPI threshold). Consequently, the claims being made at common law are expected to be for the relatively more seriously injured claimants. Absolute legal costs for these claims are not expected to differ from current scheme levels. Hence, as common law settlement sizes reduce but legal costs remain the same, the result is that legal costs as a proportion of settlements would increase from current level by about 5% to around 38% of costs per policy for common law benefits.

Model D is more restrictive than Model C as only claimants with a WPI of 10% or greater have access to common law benefits. Based on an analysis of the top claims by settlement size in the ACT scheme, legal costs as a proportion of settlement size was found to be similar to the scheme average level of about 33%. Hence we have assumed this proportion is unchanged from the current scheme in Model D. Thus, the driver of the reduction in common law legal costs from the current scheme in Model D is wholly driven by the reduction in the number of legally represented claims at common law.

3.3.4 ACT costs relative to other schemes

Our costings rely on claims experience from other schemes, in particular the TAC scheme in Victoria and the NSW and Queensland schemes. In order to convert these costs to the ACT claims environment, it is necessary to adjust for differences in claim numbers and cost drivers including wage levels and provider costs.

3.3.4.1 Claim frequency and relative claims costs

Unfortunately, the ACT casualty data was insufficient to rely on for all our costing purposes and an alternative approach was required.

To determine the ultimate number of claims, relative claims costs under defined benefits which might arise under each of the model designs proposed for the ACT scheme and in particular the mix of at-fault and not at-fault claims, we have considered the number of casualties and their mix by fault status (i.e. at-fault and not at-fault) compared to other regions.

Historically for Victoria, there has been a strong correlation between motor accident casualties and CTP claims which is predominantly due to the no-fault defined benefit structure of the scheme which provides only limited access to common law for seriously injured not at-fault claimants. In the modelling of the new NSW scheme undertaken previously by EY, the strong correlation between casualties and claims was also considered as the scheme moved towards a defined benefit structure. It was assumed that there would be a correlation between casualties and claims under the proposed model designs since all models offer defined benefits.

Using analysis of data supplied by IAG and Suncorp and analysing casualty frequency trends by region in NSW the characteristics of ACT crashes (based on data received) were judged to be similar to the NSW region of Newcastle. NSW CrashLink and ACT TCCS data was used to analyse casualties and crash experience over time in the ACT for such factors as the proportion of at-fault and not at-fault casualties, proportion of single vehicles accidents, number of casualties per accident, average number of vehicles per accident and average number of casualties per vehicles.

There is also some qualitative rationale as well in that we would expect ACT and Newcastle to have lower road density than Sydney, but higher road density than NSW Country. We also expect ACT to have better road conditions than NSW Country. Ultimately, this would lead to the view that ACT's

casualty experience should also be similar to Newcastle. For these reasons, we used NSW Newcastle as a suitable basis for which to derive ACT's claim frequency, relative defined benefit claims costs and other assumptions under the proposed models.

Assuming a similarly high propensity to make a CTP claim as in Victoria following a road accident resulting in a casualty, we have adjusted the TAC claims costs to allow for the estimated number of claims in the ACT based on the Newcastle region as a proxy. The impact is about a 3% uplift in claim costs. This adjustment is used for all defined benefit costs which are based on the TAC claims experience.

There is considerable uncertainty around this assumption given that there is a lack of robust CTP casualty data available for ACT. Furthermore, the number of claims that will be reported under the model designs is also uncertain and will be determined by the behaviour of claimants and their advisors as well as the general awareness of entitlement to benefits under the new scheme. It is important to consider the results in the context of this uncertainty as the final average passenger vehicle premium is sensitive to the assumption we have adopted.

3.3.4.2 At-fault and not at-fault ratio

The ratio of at-fault claims to not at-fault claim numbers is different between the ACT and Victorian schemes. The ratio for the ACT is based on the analysis as described in section 3.3.4.1 above. As with the number of claims above, we have used Newcastle as a proxy for the expected number of at-fault claimants under the four design models. This assumes a proportion of about 40% at-fault claims across the total claim population under each design model for defined benefits.

3.3.4.3 Wage relativities

Loss of earnings benefits cover past and future earnings lost as a result of an injury in an accident, and so are dependent on wage levels. As wage levels vary by state, claims costs arising in the TAC scheme needed to be adjusted by the relative difference in wage levels between ACT and Victoria. This was done by comparing the ABS Average Weekly Earnings ("AWE") index for all persons' total earnings in ACT and Victoria. Based on recent experience, we assumed that wage levels in ACT were approximately 24% higher than Victoria.

3.3.4.4 Medical cost relativities

Based on previous analysis we have performed between the centralised fee schedules for treatment providers in the TAC scheme and prevailing fees charged by the NSW workers compensation scheme, which will be applied in the new NSW scheme, we concluded that medical fees for private hospitals and allied health services were 45% higher in NSW than in Victoria. We have been advised that medical fee rates are similar in the ACT and NSW, hence we have applied the same 45% uplift to all treatment costs arising under the TAC scheme.

3.3.5 Claim number distribution by WPI

Models C and D use WPI as a threshold for accessing defined benefits or common law awards. WPI under these models is measured based on the fifth edition of the American Medical Association Guides to the Evaluation of Permanent Impairment (AMA 5). As the ACT scheme does not currently utilise WPI in accessing benefits, the claim numbers relating to benefits using these thresholds had to be estimated for the purposes of this costing.

For defined benefits, Models C and D specify a threshold of 5% to be eligible for the quality of life defined benefit. To estimate the proportion of claimants falling above and below this threshold we used NSW CTP claims data - unlike the ACT data we could split the data into above and below WPI of 10% and in addition there was a greater volume of data to provide stability to the numbers. Using a sample set of injury descriptions split by severity levels 1 - 6, we sought the advice of medical specialists to estimate the proportion of injuries under each severity which would be classified as a WPI greater than or equal to 5%.

Based on this analysis the proportion of claims likely to have a WPI assessed as being 5% or over was assumed at 55%. There is a large amount of uncertainty around this assumption as medical specialists advised us that at lower WPI's the precision of impairment evaluation is poor.

Under common law for general damages in Models C and D, a WPI threshold of 10% is specified in the model design. NSW was used to determine the proportion above this threshold, as the NSW PIR dataset indicates whether the claim is above this threshold for the purposes of determining general damages in the NSW scheme. As the definitions are different under the NSW scheme than for the model designs proposed, these proportions were adjusted to allow for an AMA5 basis and to include claimants with a WPI equal to 10% (these adjustments were based on specialist medical advice). Our final assumption was that 15% of claimants were likely to have a WPI of 10% or higher under the proposed models.

The distribution of claims across all WPI levels was based on the distribution of ISV in the Queensland scheme as a proxy, which has assumed to be representative of the shape of injury severity from the least to the most severe across all claimants. Despite the shortcomings of this approach, it has a negligible impact on the costings as the amounts are prescribed by scale and the relatively strong threshold of 10% WPI is expected to maintain a stable number of claimants at common law.

3.3.6 ISV - behavioural effects

A significant design feature of Models A and B is the introduction of the ISV instrument for assessing common law amounts for general damages. Based on experience in the Queensland scheme following reforms in 2003, costs for all other heads of damage experienced notable change in the following periods. We have analysed this "behavioural" effect in the Queensland data and have incorporated our findings into the assumptions for common law costs under Models A and B.

In 2003, the Queensland government introduced the Civil Liability Act 2003, which introduced the ISV scale for calculating general damages. Upon analysis of historical claims experience. The number of claims in the Queensland scheme reduced significantly from the date when the Civil Liability Act 2003 became effective resulting in a significant reduction in claim numbers between 2001 and 2006, much more than the reduction in the number of vehicle accident casualties. Claim numbers stabilised from 2006. Cost per policy also reduced by a similar amount over the same period.

Further analysis of claim trends and discussions with the Queensland CTP Regulator confirmed that the main reason for this decrease was the introduction of the ISV scale, with the decrease driven predominantly by a reduction in minor injury claims. The scale provided less generous benefits for these minor claims compared to what these claims would have received under the previous common law structure prior to 2003, thus acting as a disincentive to less severely injured claimants putting in a common law claim in the first place. In addition to the overall reduction in claim numbers, the ISV had other flow on impacts on the cost per policy of treatment, care and loss of earnings at common law. For the period between 2001 and 2006 when claims numbers reduced as noted above, treatment and care awards reduced. However, loss of earnings over the same period increased driven predominantly by a substitution effect between general damages and EL. In our costings we assumed that similar behaviour would be experienced when transitioning from a common law structure in the current ACT scheme to the ISV scale in Models A and B noting that the level of benefits for general damages in the design models for ACT are substantially higher than in Queensland.

Based on experience in Queensland, both claim numbers and cost per policy behavioural effects of ISV were explicitly accounted for in the costing of Model A and B. The reduction in claim numbers and cost per policy is not expected to be as significant as Queensland as the proposed ISV scales are much more generous than the scale introduced in Queensland (e.g. at low ISVs the amounts are three to four times the amounts in Queensland). Furthermore, the behavioural effect is expected to be greater in Model B than in Model A as the ISV scale in Model B is less generous compared to Model A.

3.3.7 Interstate claims

Interstate claims are the claims caused by an ACT at-fault vehicle where the accident occurs in another state. Under this scenario, the ACT insurer of the at-fault driver would be liable, however the benefits that would apply for the claimant would be of the state where the accident occurs. For example, if an ACT at-fault vehicle injures a person in NSW, then the claimant would have access to NSW benefits instead of ACT. Since the benefits of the other state apply, changes in benefit design in the ACT will have no impact on the cost of interstate claims. Therefore, it is imperative to exclude interstate claims from the costing of the various heads of damage and consider these claims as a separate line item so that they are independent of the changes under the proposed model designs.

Using data provided by insurers, we estimate there are approximately 75 interstate claims per year in the ACT with an average claim size of \$150,000, resulting in a cost per policy of approximately \$40 on an average scheme premium basis (around \$37 on a passenger vehicle basis) in the current scheme. The cost per policy of \$40 is removed from the other heads of damage in the current scheme risk premium using a pro rata approach and considered as a separate cost in the results. For the proposed models, this method will ultimately result in common law costs that are exclusive of interstate claims in the benefit designs where the common law costing relies on the current scheme cost.

A lower cost per policy of \$32 per passenger vehicle (equivalent to \$35 on a scheme average basis) was used as the cost in the four design models, to reflect the reduction in the cost per policy of interstate claims seen in NSW following the reforms in 2017 (the reason this change was made was ACT insurers had not reflected in the lower cost of NSW interstate claims in their current scheme premiums arising from the new NSW CTP scheme that commenced on 1 December 2017).

3.3.8 Nominal defendant claims

Insurer premiums in the ACT scheme incorporate a levy for nominal defendant claims of approximately 4% of average premiums (excluding levies) as at July 2017. This levy covers claim costs under the scheme where the at-fault driver is unidentified or unregistered. Under each of the models we have adjusted nominal defendant costs such that they are the same percentage of not at-fault claims costs under each model. (We have assumed there will not be any at-fault claims managed by the nominal defendant.) As the not at-fault claims costs reduce from Models A to D, the nominal defendant levy therefore also reduces.

An increase to the nominal defendant levy was processed in early 2018. This has not been incorporated in our costings which are based on the insurer premiums effective July 2017.

3.3.9 Passenger vehicle relativity

The estimated average cost per policy has been initially performed at an overall scheme basis and then adjusted for the passenger vehicle relativity under each model to arrive at an average passenger vehicle premium.

This adjustment is required to reflect the different mix of at-fault and not at-fault claimants arising from each vehicle class, as the design models provide progressively more benefits to at-fault parties.

Some examples of how the mix of at-fault and not at-fault claimants may change for each ACT vehicle class are:

- ▶ For Passenger vehicles, we have estimated for every 60 not at-fault claims there will be around 40 at-fault claims (where a passenger vehicle is at-fault). This reflects the inclusion of the at-fault driver in an accident, including single vehicle accidents
- ▶ For Motorcycles, we estimate that for every 10 not at-fault claims there are approximately 90 at-fault claims (where a motorcycle is at-fault). Again this reflects the inclusion of the at-fault driver in an accident, including single vehicle accidents. In addition, where a motorcycle rider

or pillion passenger is injured, they are likely to have more severe injuries than parties in other vehicles

- For vehicles used for commercial purposes like larger trucks, buses and taxis, the impact of including the at-fault driver is low. This is because they are more likely to be covered through workers compensation

Ultimately, it means that the premium savings will not be consistent by vehicle class, and this will also vary by model design.

The passenger vehicle relativity adjustments for ACT are based on the analysis and results prepared by EY in the development of the new NSW scheme, in particular the results for the Newcastle region. Additional adjustments are made to reflect the varying proportion of benefits attributed to at-fault parties under each model design.

3.3.10 Insurer expenses, insurer profits, levies and other assumptions

Claims handling expenses are estimated by multiplying the total claims costs by the percentage of claims costs which are comprised of these expenses. For the four design models, this percentage is assumed to be greater than for the current scheme, as there is more claims management work for defined benefits than common law claims, and increases from Model A to Model D to reflect the greater administrative costs of handling a larger number of defined benefit claims. The assumptions for insurer acquisition costs and reinsurance costs as a dollar per policy are assumed to be unchanged from the current scheme.

The insurer profit margins and GST levies have been estimated by multiplying the total claims cost by the proportion of claims costs which are comprised of these expenses, which was assumed to be unchanged from the current scheme under the four models.

3.3.11 Motorcycle subsidy

In respect of the model designs for a new scheme, the ACT government has an objective that CTP premiums are not to increase over current levels. However as highlighted in Section 3.3.8, the extension of coverage to at-fault drivers has a significant impact on the relative risk on the motorcycles vehicle class, which are likely to result in premium increases for motorcycles.

In order to maintain motorcycle premiums at current levels, we estimated the cost per policy under each model design that would need to be subsidised by all remaining vehicle classes (including passenger vehicles).

This estimated motorcycle subsidy per passenger vehicle under each model design is shown in Appendix B. The adjustments have been based on the relativity analysis and results prepared by EY in the development of the new NSW scheme, in particular the results for the Newcastle region (i.e. the same analysis supporting the passenger vehicle relativities discussed in Section 3.3.8). Additional adjustments are made to reflect the varying proportion of benefits attributed to at-fault parties under each model design.

The estimated motorcycle subsidy per passenger vehicle is lower for Models A and B, compared to Models C and D; due to the lower proportion of benefits extended to at-fault drivers.

Our estimate of the motorcycle subsidy is inherently uncertain as it relates to the experience of a small group of vehicles (approximately 12,000 motorcycles) and it is ultimately dependent on how insurers set premiums for motorcycles in a competitive market (subject to the premium determination guidelines set by the ACT Regulator).

3.3.12 Payment patterns made in each year post accident date

To derive the estimated payments by time period shown in Section 4.2.1 we have used TAC scheme data as the basis of defined benefits payment patterns and current ACT scheme data as the basis of common law payments.

4. Results and other scheme metrics

This section contains the results of our costing for the four model designs compared to current scheme premium. In addition, this section illustrates the results of various metrics derived from the costings for the four models in response to the jury's objectives. As discussed in previous sections, our costings are based on a mature scheme environment where the motorists and the general public are fully aware of their rights under the selected model, relationships between insurers and medical and allied health providers are well established and the general infrastructure of the ACT CTP Regulator and insurers is fully setup.

Our estimated cost for the four model designs is not the actual premium that would be charged to individual vehicle owners due to various factors including a potential honeymoon period, competitive pricing, awareness of benefits, regulations, guidelines, etc. Refer to Section 4.3 for a full discussion on the difference between the estimated cost and the actual premium paid under any selected model.

More detailed results of the costing for each model design are contained in Appendix B.

4.1 Estimated premium by modelled scenario

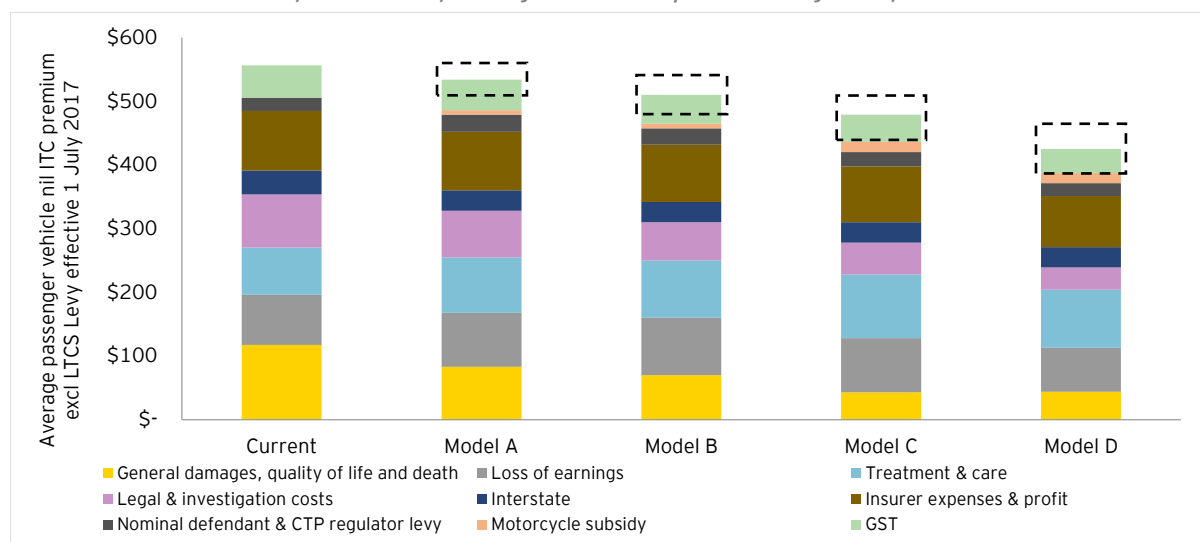
The following chart summarises the results of our estimated costs for the four model designs compared to the current scheme premium. The results show:

- ▶ Cost of claims broken up into four groups of benefits and costs which include defined benefits and common law awards plus legal costs for both not at-fault and at-fault claimants:
 - ▶ General damages, quality of life and death (including funeral expenses and compensation to dependents) at common law and defined benefits
 - ▶ Loss of earnings
 - ▶ Treatment and care which includes all medical, private and public hospital, allied health services (e.g. occupational therapy, physiotherapy, etc.), domestic and personal care. Note the public ambulance is excluded as these services are funded via a separate levy as part of vehicle registration fees
 - ▶ Legal and investigation costs which include insurer and plaintiff legal costs and insurer investigation costs. The benefits described above (general damages, loss of earnings, treatment, care, etc.) are shown inclusive of solicitor-client fees which would be deducted from settlements
- ▶ Interstate claims costs are shown separately. These are claims ACT insurers are liable to pay where an ACT-registered vehicle causes an accident while travelling in another state. These costs are unaffected by any reforms to the ACT CTP scheme as the benefits of the state in which the accident occurs apply
- ▶ Insurer acquisition expenses, insurer claims handling costs and insurer profit margin included in premium filings to the ACT CTP Regulator
- ▶ Nominal defendant levy which is the cost of claims for uninsured vehicles or for unsighted vehicles that caused an injury to a person
- ▶ Motorcycle subsidy. For motorcycles, the introduction of defined benefits for at-fault drivers results in a substantial increase in the cost of claims for motorcycle accidents. This arises because data in ACT and other states show that most motorcycle accidents are single vehicle accidents (i.e. the motorcycle rider is at-fault) and hence there are many more at-fault injured motorcyclists than not at-fault motorcyclists (up to 10 times more). In addition the average

claim size experience of motorcycle claims is about twice the amount for other claims. Consequently the premium that would need to be charged for motorcycles in each of the four model designs would need to increase significantly above current levels. To meet the government's objective of no increase in premiums, we have estimated the size of the subsidy passenger vehicles would need to pay to cap motorcycle premiums at current levels. We expect the premiums in some commercial classes (e.g. large trucks, buses and taxis) to fall by more than the percentage reduction in passenger vehicles under each model as drivers of such vehicles are more likely to be covered through workers compensation and hence the impact of including the at-fault driver is low

► Regulator levy and GST

Chart 28: Estimated CTP premium for passenger vehicles by model design compared to current scheme



The dotted line illustrates the uncertainty in the estimated costings – actual premiums could be higher or lower than the average estimated premiums as shown above. The range gets progressively wider going from Model A to Model D, with Model A estimates having the least uncertainty and Model D estimates having the most uncertainty. This is driven by the level of change under each model design compared to the current scheme.

More detailed results are set out in Appendix B including the split of claims costs between at-fault and not at-fault claimants and between defined benefits and common law claims costs. Note that the above premiums and costs exclude the LTCS levy.

Our key observations from the above chart in respect of passenger vehicles are:

- Average estimated premiums for all models represent a reduction from the current level of \$556.
 - Under Model A the estimated premium lies in the range of \$510-\$560 with an average reduction of about \$20.
 - Under Model B the estimated premium lies in the range of \$480-\$540, with an average reduction of about \$50.
 - Under Model C the estimated premium lies in the range \$440-\$510, with an average reduction of about \$75.
 - Finally under Model D the estimated premium lies in the range \$385-\$465, with an average reduction of about \$130.

- ▶ Across all models, the largest reduction in the estimated claims cost arises from a decrease in general damages and legal costs.
- ▶ The differences in estimated costs in each model reflect:
 - ▶ Progressively more at-fault benefits available under the designs going from Model A to Model D
 - ▶ Progressively more defined benefits available under the designs going from Model A to Model D, which partially replace common law under each model – particularly under Models C and D
 - ▶ Lower general damages under Models C and D compared to Models A and B, particularly for less severe injuries (see scale of amounts in Appendix A)
 - ▶ Lower common law benefits under Model D compared to all other models due to a threshold restricting access to these benefits for not at-fault claimants to the most seriously injured
- ▶ The reduction in estimated legal costs going from Model A to Model D reflects a reduction in the cost of claims paid at common law (replaced by defined benefits) and hence overall legal costs for the scheme reduce for both insurers and plaintiffs. Legal costs related to defined benefits are significantly lower than legal costs for common law awards
- ▶ The reduction in the cost of claims across the four models results in a reduction in the dollar cost of insurer profits and GST as these are a percentage of premiums
- ▶ Overall there is little change in insurer expenses (excluding insurer legal expenses as they are treated as a claims cost). For claims handling costs, there is more work for insurers managing defined benefit claims so this increases slightly for all models (despite the reduction in claims costs under all models). We have assumed there is no change in insurer acquisition expenses (see section 4.2.6 for further details)
- ▶ The cost of the nominal defendant levy reduces in line with the reduction in claims cost in each Model. For interstate claims under all models we have allowed for a reduction of \$5 compared to current scheme costs. This reduction represents the lower claims costs in the NSW scheme (where most interstate claims are expected to arise) which we assumed was not incorporated in insurers' current premiums (which were as at July 2017). In addition the subsidy for motorcycles adds about \$7 to Models A and B to about \$16 in Models C and D. There is also an estimated increase in the Regulator levy to \$10 in each model due to additional functions (such as an enhanced information role and some dispute resolution mechanism supports) and enhanced ICT requirements due to the introduction of defined benefits.

4.1.1 Detailed commentary on the drivers of change in claims costs under each model

The main drivers of the change in estimated costs for each model are set out in the following table (excluding interstate claims). The changes to the nominal defendant levy are reflective of the drivers in the table below and the overall reduction in claims costs. We have not referred to the reduction in legal costs in the table as they primarily reflect the changes in benefits paid at common law. The numbers in the following table refer to the mid-point in the range.

Table 29: Main drivers for changes in costs of claims in each of the four proposed model designs

Model	Main drivers of change in claims cost per policy
A	▶ The overall reduction in the estimated claims cost per policy (excluding interstate) from \$354 in the current scheme to \$330 in Model A is a difference of

	\$24. General damages and legal costs (including estimated solicitor-client legal costs) are estimated to reduce by \$48 but this is offset by estimated increases to loss of earnings and treatment and care benefits. These increases are partly due to the inclusion of defined benefits for at-fault claimants (which amount to \$28) ▶ The cost per policy of common law benefits for not at-fault claimants is estimated to reduce from \$354 in the current scheme to \$263 in Model A or a reduction of \$91 ▶ A reduction in the amount of general damages at common law is due to the introduction of an ISV scale for general damages for less seriously injured not at-fault claimants ▶ There is a reduction in the cost per policy of other head of damages at common law due to the availability of defined benefits for 6 months for not at-fault claimants and an expected reduction in the number of claims accessing common law.
B	▶ The overall reduction in the estimated claims cost per policy (excluding interstate) from \$354 in the current scheme to \$307 in Model B is a reduction of \$47. General damages and legal costs (including estimated solicitor-client legal costs) are estimated to reduce by \$77 but this is offset by increases to loss of earnings and treatment and care benefits. These increases are partly due to the inclusion of defined benefits for at-fault claimants (which amount to \$34) ▶ The cost per policy of common law benefits for not at-fault claimants is estimated to reduce from \$354 in the current scheme to \$228 in Model B or a reduction of \$126 ▶ A reduction in the amount of general damages at common law is due to the introduction of an ISV scale for less seriously injured not at-fault claimants which is less generous than Model A ▶ There is a reduction in the cost per policy of other heads of damage at common law due to the availability of defined benefits for 12 months for not at-fault claimants and an expected reduction in the number of claims accessing common law (lower than in Model A).
C	▶ The overall reduction in the estimated claims cost per policy (excluding interstate) from \$354 in the current scheme to \$278 in Model C is a reduction of \$76. General damages and legal costs (including estimated solicitor-client legal costs) are estimated to reduce by \$118 but this is offset by increases to loss of earnings and treatment and care. These increases are partly due to the inclusion of defined benefits for at-fault claimants including a quality of life statutory lump sum (at-fault benefits amount to \$67 in total) ▶ The cost per policy of common law benefits for not at-fault claimants is estimated to reduce from \$354 in the current scheme to \$141 in Model C or a reduction of \$213 ▶ A reduction in the amount of general damages at common law is due to the introduction of a 10% Whole Person Impairment threshold for access to general damages for not at-fault claimants and a scale for general damages which is less generous than in Models A and B (where it is unlimited) ▶ There is a reduction in the cost per policy of other heads of damage at common law due to the availability of defined benefits for up to 5 years for not at-fault

	claimants and an expected reduction in the number of claims accessing common law (lower than in Models A and B).
D	▶ The overall reduction in the estimated claims cost per policy (excluding interstate) from \$354 in the current scheme to \$239 in Model D is a reduction of \$115. General damages and legal costs (including estimated solicitor-client legal costs) are estimated to reduce by \$137 but this is offset by increases to loss of earnings, treatment and care and a quality of life statutory lump sum. These increases are partly due to the inclusion of defined benefits for at-fault claimants including a quality of life statutory lump sum. (At-fault benefits amount to \$70 in total.) ▶ The cost per policy of common law benefits for not at-fault claimants is estimated to reduce from \$354 in the current scheme to \$96 in Model D or a reduction of \$258 ▶ The reduction in the amount of common law costs for not at-fault claimants is due to the introduction of a 10% Whole Person Impairment threshold for access to common law remedies and a scale for general damages which is the same as Model C. This threshold is estimated to significantly reduce the number of claims accessing common law compared to the other models. The reduction in common law costs for those claims accessing common law is also due to the availability of defined benefits for 5 years for not at-fault claimants.

4.2 Other scheme metrics

The metrics below have been estimated to assist the jury with their assessment of each model. The metrics address the first three priorities set by the jury. In addition we have included various metrics on claim numbers and other characteristics of the models.

4.2.1 Early access to treatment, care and loss of earnings

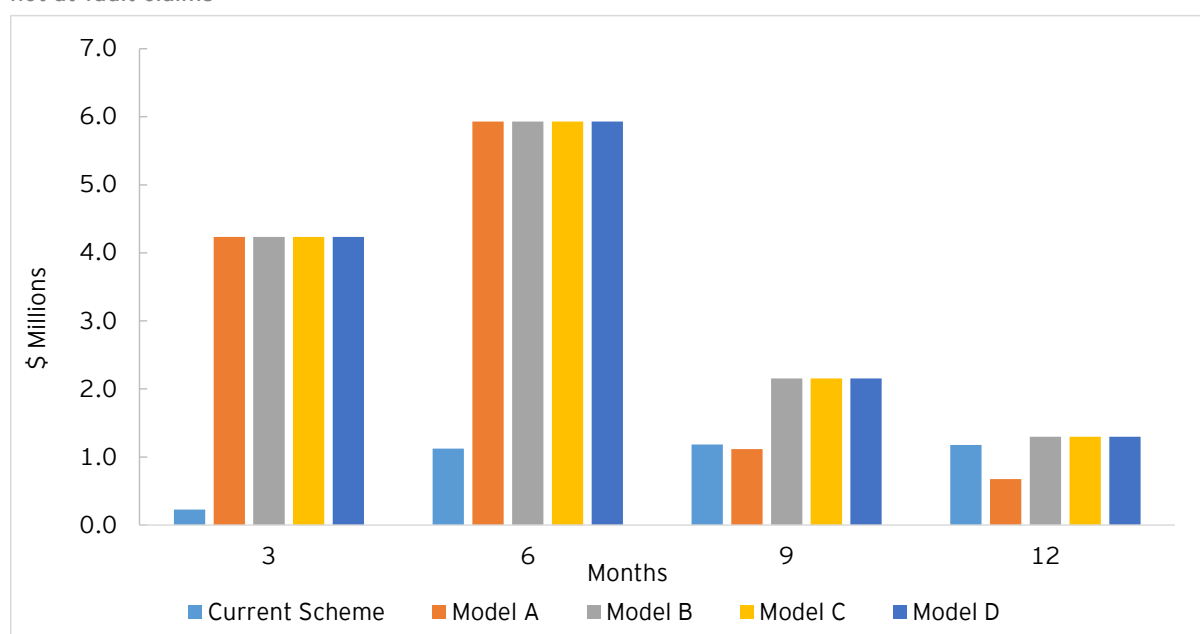
The jury's first priority in its report was "early access to medical treatment, economic support and rehabilitation".

The following chart sets out the estimated benefits paid by quarter for the first year after the claimant's accident for claims which occur in the same 3 month period. There is a significant delay between the medical service provided to a claimant and the payment of the fee by the insurer for that service. Our past analysis has estimated the delay at about three months. The delay includes:

- ▶ Time between the date of the service and the provider of the service sending an invoice to the insurer for the service
- ▶ Time between provider sending the invoice and the insurer receiving the invoice
- ▶ Period where the insurer assesses the invoice which may include questions to the provider and in some cases where errors in the invoice have been identified sending a correct invoice
- ▶ Delay in payment of the invoice by the insurer.

The figures for the current scheme include all payments made by insurers including interim or progressive claims payments for treatment, care and loss of earnings prior to the settlement of a claim.

Chart 30: Estimated claim payments³ by insurers by quarter for treatment, care and loss of earnings for not at-fault claims



The above chart clearly shows that each model allows for substantially earlier access to treatment, care and loss of earnings than in the current scheme especially for the first 6 months.

The benefits paid to claimants in the current scheme in the early quarters are underestimated in the above chart as many claimants access Medicare benefits which are then recovered by Medicare from the common law lump sum. In addition, some employers may pay claimants sick leave for limited periods. Despite this many claimants in the current scheme are left out-of-pocket or cannot access treatment that is not covered by Medicare until the common law claim is settled. In the current scheme, the average time to settlement is around 4 years, in other words, half of settlement payments are paid after 4 years.

4.2.2 Equitable cover for all people

The jury's second priority in its report was "equitable cover for all people injured in a motor vehicle accident".

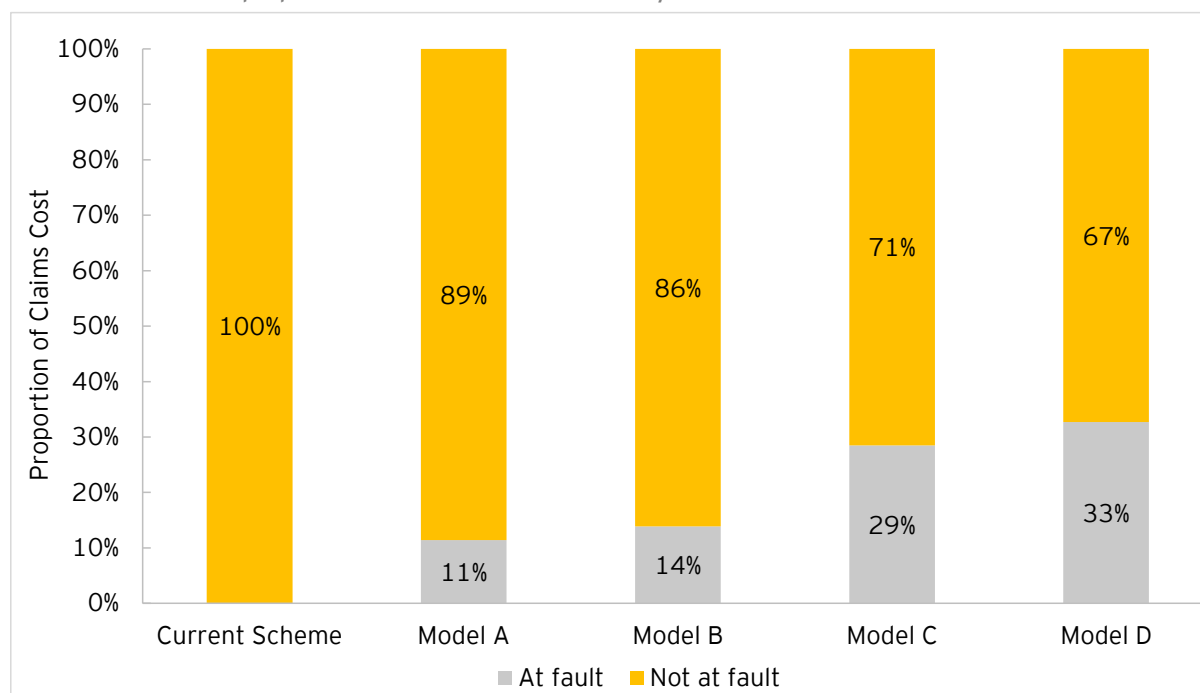
For each model we have set out two metrics compared to the current scheme:

- The estimated proportion of claims costs received by claimants for at-fault and not at-fault claimants (excluding legal and investigation costs)
- For not at-fault claimants only, the proportion of claims costs paid to those above and below the 10% WPI threshold and their average claim size.

In both metrics we have excluded all legal and investigation costs from claim payments (i.e. we also excluded estimated solicitor-client costs from claim payments).

³ Estimated claim payments shown represent the middle of a range of best estimates. Actual payments could be higher or lower than shown

Chart 31: Estimated proportion of claims costs received by claimants for at-fault and not at-fault claims



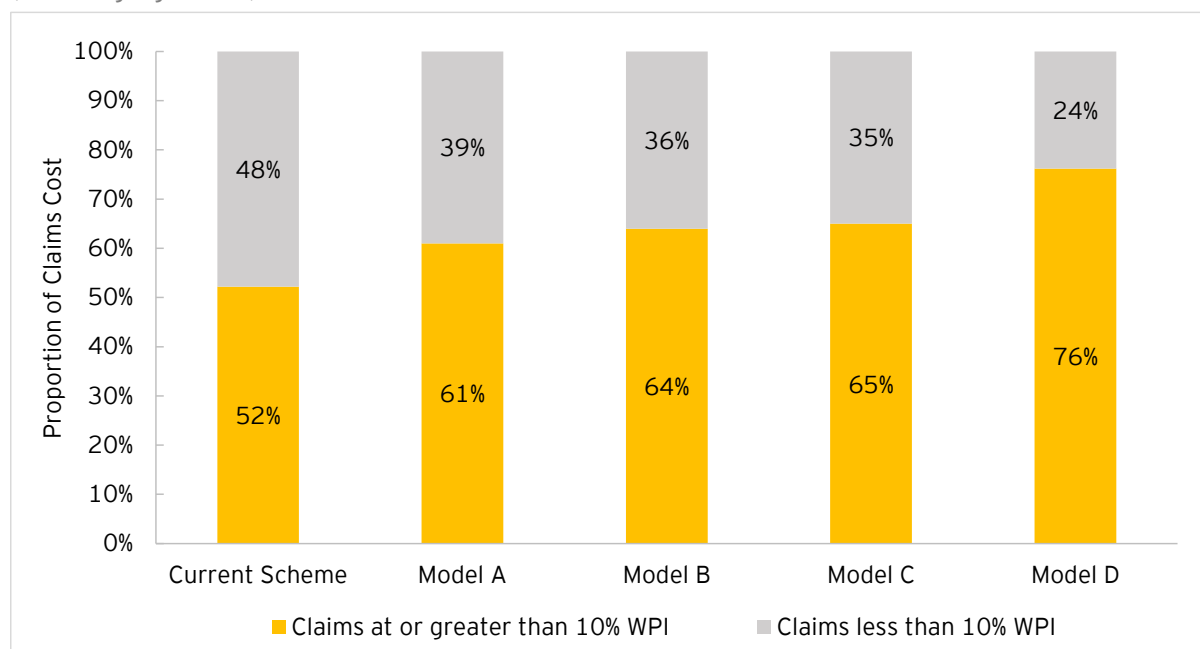
Note: Claim costs above exclude all legal costs (including estimated solicitor-client fees) as they represent the benefits claimants receive

The above chart shows that the estimated proportion of claims costs (excluding legal and investigation costs) received by at-fault claimants increases from almost 0% in the current scheme (MANF benefits) to 11% in Model A where benefits are limited to six months, to 14% in Model B where benefits are limited to one year, to 29% in Model C where benefits are limited to two or five years and 33% in Model D where all benefits are limited to five years. Models C and D also make a quality of life statutory lump sum available to at-fault claimants and not at-fault claimants.

These proportions should be compared to the 40% of the potential claims population which we estimate could be at-fault claims made under each model in a mature scheme situation. The proportion does not reach 40% in Model D since not at-fault claims meeting the 10% WPI threshold have access to common law benefits unlike at-fault claimants whose benefits cease at five years.

The chart below for not at-fault claims shows the estimated proportion of the cost of claims split between claims with at least 10% WPI and those below 10% WPI.

Chart 32: Estimated proportion of claims costs for not at-fault claimants split by WPI above and below 10% (excluding legal costs)



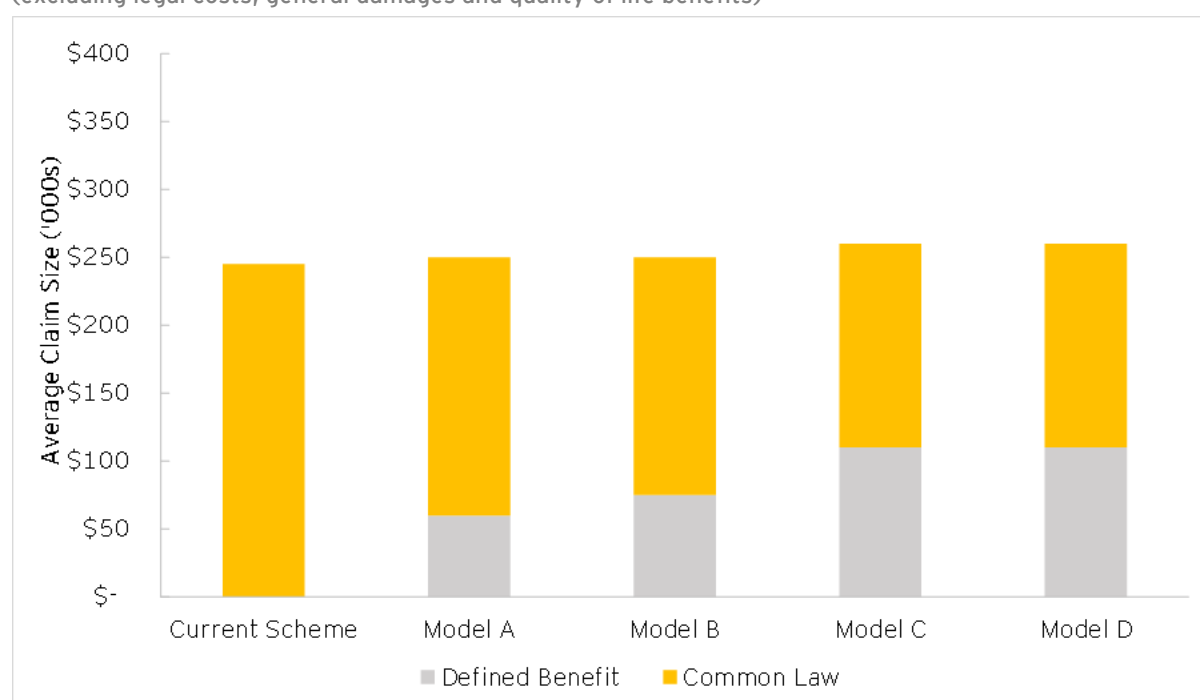
Note: Claim costs above exclude all legal costs (including estimated solicitor-client fees) as they represent the benefits claimants receive

The estimated proportion of claims costs (excluding all legal costs) received by not at-fault claimants with a WPI of 10% or greater in the current scheme is 52%. This proportion gradually increases across the model designs to 61% in Model A, 64% in Model B, 65% in Model C and 76% in Model D. The increases reflect aspects of the differences in benefit design across the four design models including:

- ▶ Reduction in generosity of general damages at common law especially for claims below 10% WPI
- ▶ Reduction in the number of claims accessing common law in each model with the most impact under Model D where there is a 10% WPI threshold for all common law claims. Moving from Models A to C there are progressively less minor injured claimants expected to pursue common law remedies
- ▶ Increase in defined benefits to all claimants. Experience in other schemes shows that this typically leads to a greater proportion of claim payments being received by more seriously injured claimants than under a fully common law scheme. This is particularly the case for Models C and D where the defined benefits are payable for up to five years compared to at most one year in Models A and B.

The following two charts for not at-fault claims show the estimated average claim size for claims with a WPI of at least 10% received by claimants. There is significant uncertainty in these estimated average claim sizes as they rely on the assumed number of claims in each cohort which is difficult to estimate. Therefore, average claim sizes shown are indicative only; actual claims sizes could be significantly higher or lower than illustrated in the charts. The level of uncertainty is much more significant for claims less than WPI 10% than for those claims at or above this level of impairment due mostly to the much larger level of uncertainty in the estimated number of claims that will be reported for the first group of claims.

Chart 33: Estimated average claim size for not at-fault claimants with a WPI greater than or equal to 10% (excluding legal costs, general damages and quality of life benefits)



Note: Average claim size above excludes all legal costs (including estimated solicitor-client fees) as it represents the benefits claimants receive. Amounts shown are indicative only and represent the middle of a range of best estimates.

A significant proportion of common law benefits relate to general damages, especially under the current scheme and Models A and B. Under Models C and D however, general damages and quality of life benefits represent a much smaller proportion. Hence, excluding general damages from common law and excluding quality of life from defined benefits provides a view of economic loss under each of the models compared to the current scheme (i.e. shows loss of earnings, treatment and care only).

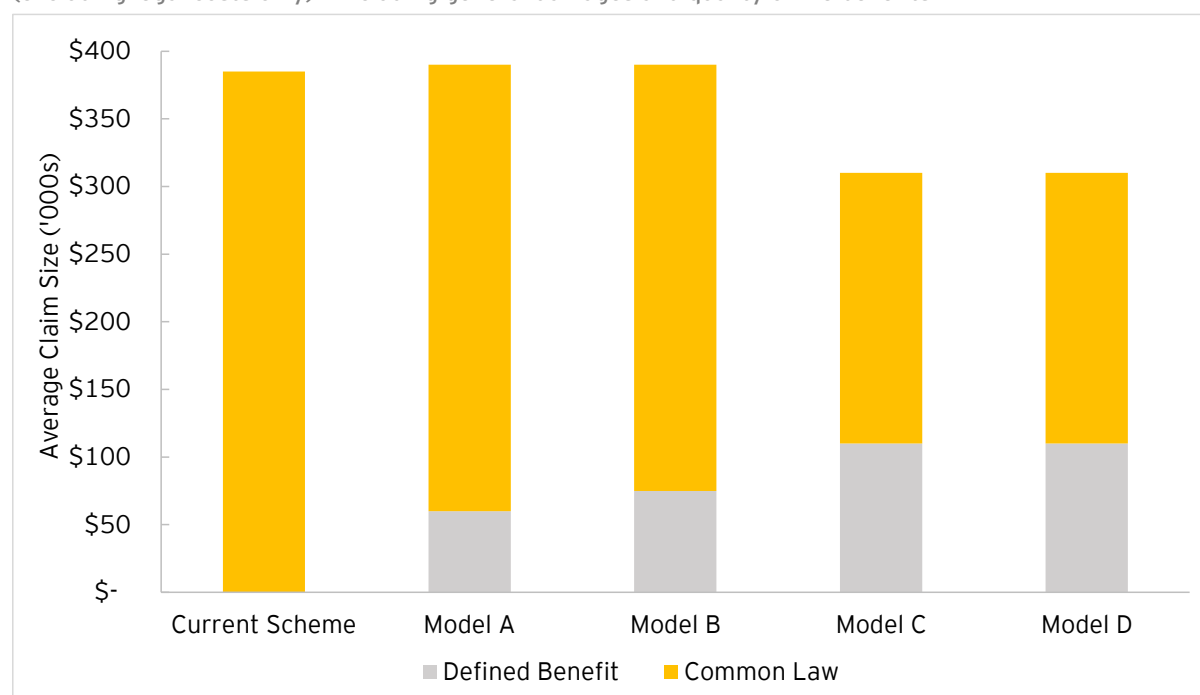
The above chart shows that the average claim size for these benefits for claims with a WPI of at least 10% in the current scheme and under each of the model designs is around \$250,000, i.e. relatively unchanged from the current scheme. The proportion of defined benefits increases in moving from Model A (about 25%) to Model D (around 40%).

The estimated average claim size increases slightly under Models A and B compared to the current scheme as a result of some benefits being received as defined benefits (paid directly to claimants) rather than common law settlements (with solicitor-client legal fees deducted). A greater impact is seen under Models C and D, where more benefits are received directly by claimants as defined benefits (up to five years).

The estimated average size of defined benefits for at-fault claims will be similar to those for not at-fault claims as in the above chart.

The chart below shows the estimated average claim size for these claimants including general damages and quality of life benefits.

Chart 34: Estimated average claim size for not at-fault claimants with a WPI greater than or equal to 10% (excluding legal costs only) – including general damages and quality of life benefits



Note: Average claim size above excludes all legal costs (including estimated solicitor-client fees) as it represents the benefits claimants receive. Amounts shown are indicative only and represent the middle of a range of best estimates.

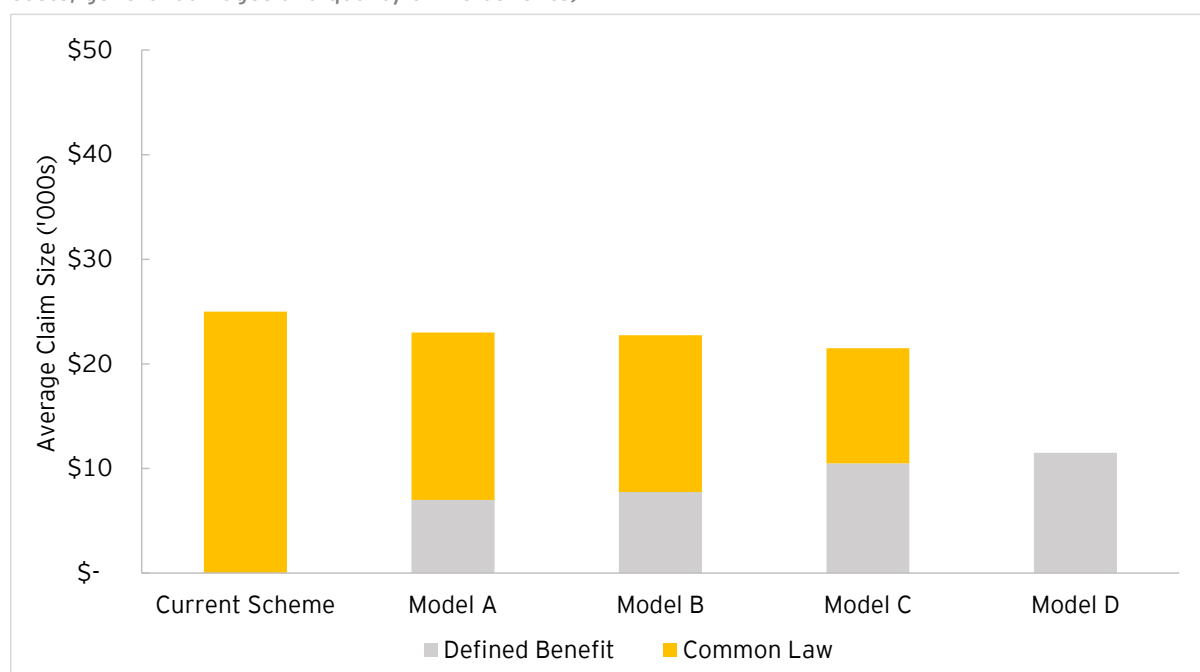
The difference in the figures between the above chart and the previous chart is the amount of general damages and quality of life benefits received by claimants after legal expenses (the figures also exclude estimated solicitor-client costs).

The above chart shows that the average claim size for all benefits for claims with a WPI of at least 10% in the current scheme and under Models A and B is around \$400,000, i.e. relatively unchanged from the current scheme. This arises because these claimants are expected to receive similar levels of general damages and other benefits under these models as they do in the current scheme.

In contrast, under Models C and D there is a prescribed scale for general damages (as shown in Appendix A) which is much lower than current levels; hence the estimated average claim size is lower than the current scheme under these models. The other benefit types are at similar levels as shown in the previous chart.

The corresponding figures for not at-fault claims less than 10% WPI are set out in the following two charts.

Chart 35: Estimated average claim size for not at-fault claimants with WPI less than 10% (excluding legal costs, general damages and quality of life benefits)



Note: Average claim size above excludes all legal costs (including estimated solicitor-client fees) as it represents the benefits claimants receive. Amounts shown are indicative only and represent the middle of a range of best estimates.

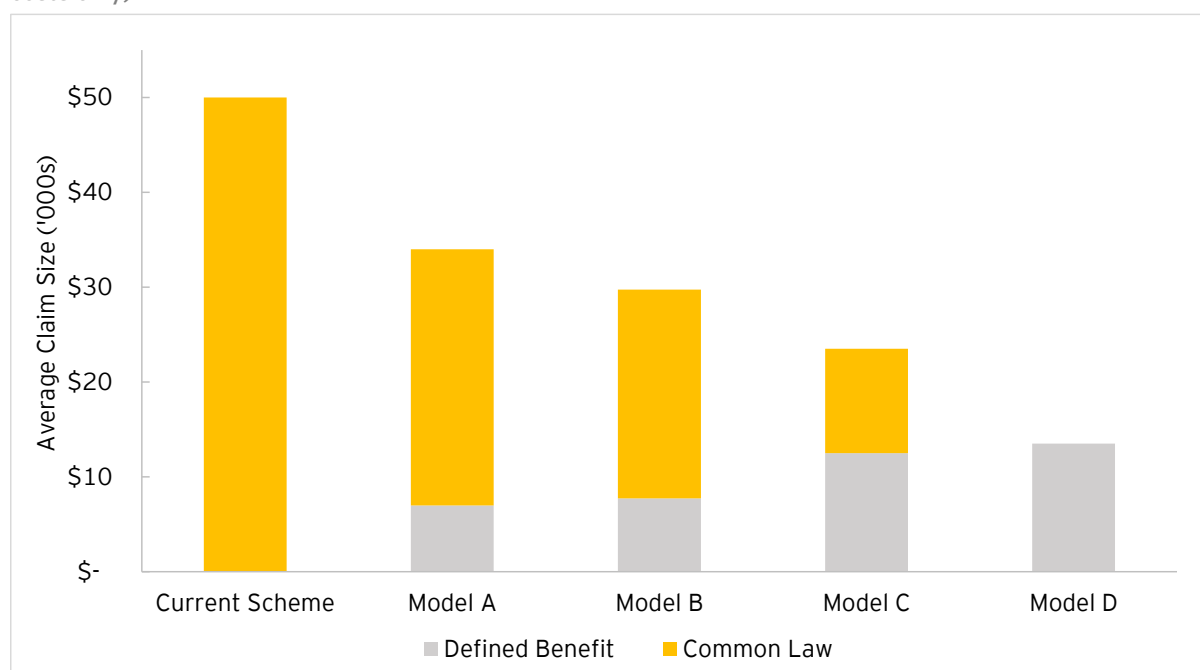
As discussed above, excluding general damages and quality of life benefits from the estimated average claim size for claims below 10% WPI provides a view of economic loss under each of the models compared to the current scheme (i.e. shows loss of earnings, treatment and care only).

The above chart shows that the average claim size for these benefits for claims below 10% WPI is around \$25,000 in the current scheme. This reduces slightly under Models A, B and C representing the lower number of claims expected to access common law due to the availability of defined benefits. Under Model D, there is no access to common law for these claimants (due to the threshold of 10% WPI) hence the average claim size is made up of defined benefits only. Under Model D these claimants have access to defined benefit loss of earnings for up to 5 years whereas under Model C this is limited to 2 years. Hence the average size of defined benefits is higher in Model D than in Model C.

The estimated average size of defined benefits for at-fault claims will be similar to those for not at-fault claims as in the above chart.

The chart below shows the estimated average claim size for these claimants including general damages and quality of life benefits.

Chart 36: Estimated average claim size for not at-fault claimants with WPI less than 10% (excluding legal costs only)



Note: Average claim size above excludes all legal costs (including estimated solicitor-client fees) as it represents the benefits claimants receive. Amounts shown are indicative only and represent the middle of a range of best estimates.

The difference in the figures between the above chart and the previous chart is the amount of general damages and quality of life benefits received by claimants after legal expense including estimated solicitor-client costs are excluded.

The average claim size for claims with WPI below 10% in the current scheme is around \$50,000. Under Models A and B the amounts of general damages available is significantly lower and this drives the estimated average claim size downwards.

Under Models C and D there is no general damages available at common law for claimants with WPI less than 10%. Defined benefits increase slightly compared to the previous chart, representing the quality of life benefit.

The estimated average size of defined benefits for at-fault claims will be similar to those for not at-fault claims as in the above chart.

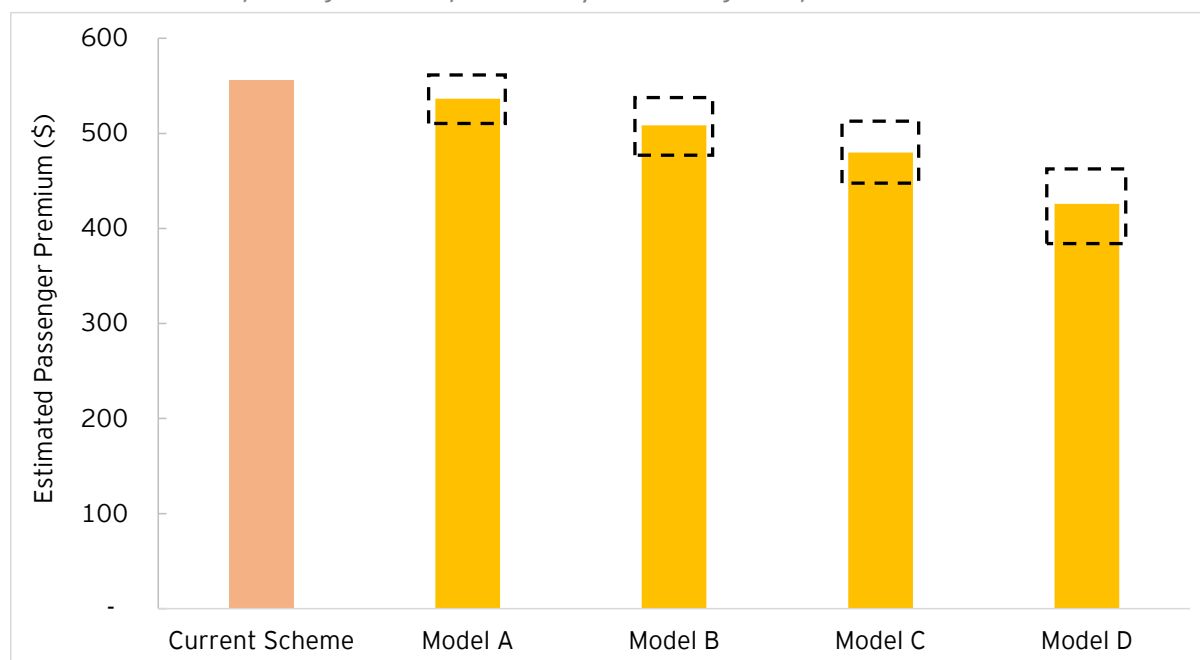
4.2.3 Value for money and efficient scheme

The jury's third priority in its report was "a value for money and efficient scheme".

The costing results provide information for the jury to assess value for money as represented by the average premium paid for passenger vehicles under each of the model designs compared to the current scheme.

Premiums (excluding the ACT LTCS scheme levy and costs) are set out below.

Chart 37: Estimated passenger vehicle premiums by model design compared to current scheme



The dotted line illustrates the uncertainty in the estimated costings - actual premiums could be higher or lower than the average estimated premiums as shown above. The range gets progressively wider going from Model A to Model D, with Model A estimates having the least uncertainty and Model D estimates having the most uncertainty. This is driven by the level of change under each model design compared to the current scheme. Refer to Section 5 for further details on risks and uncertainty and more details on the makeup of premiums in Appendix B.

Premiums are estimated to reduce from the current scheme average of \$556 to between \$510 to \$560 under Model A, \$480 to \$540 under Model B, \$440 to \$510 under Model C and \$385 to \$465 under Model D.

The second metric relevant to the jury's objective is the efficiency of the scheme. We have defined efficiency as the proportion of each premium dollar that is returned (or estimated to be returned) to injured people. This is calculated as follows:

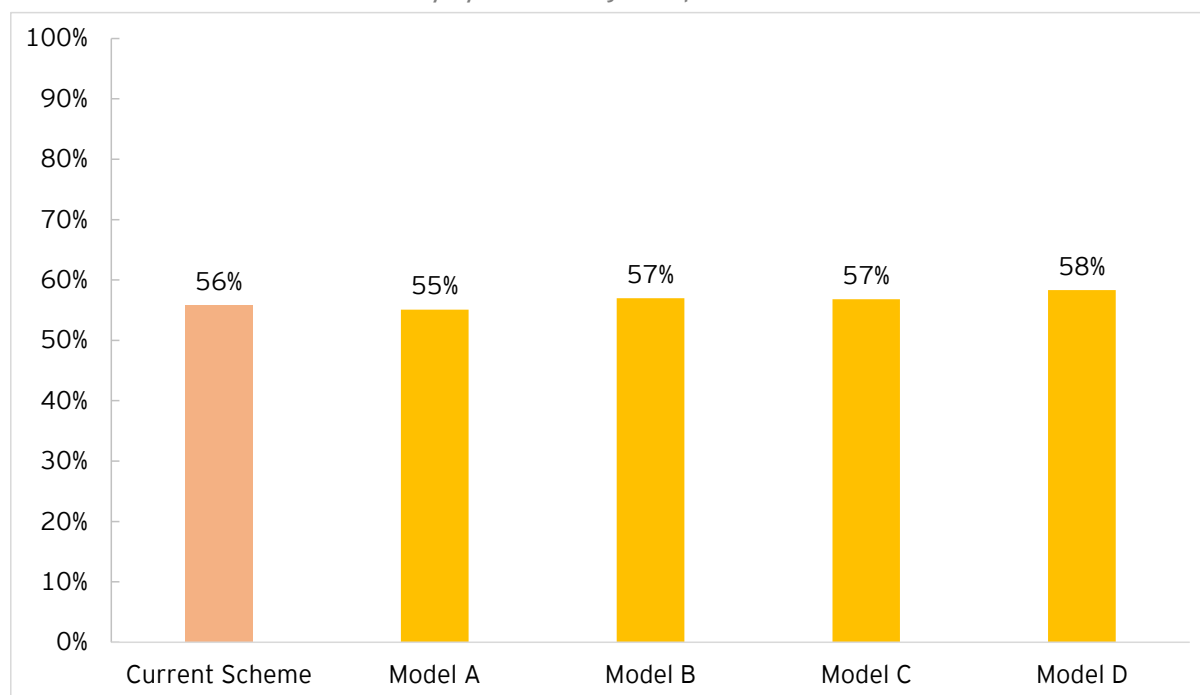
$$\text{Scheme efficiency} = \frac{\text{claim payments received by claimant } \{ 1(a) \}}{\text{Premium } \{ 1(a) + 1(b) + 2 + 3 + 4 \}}$$

Where:

1. Claims payments:
 - a. All claim costs excluding those in 1 (b). Claims costs including public hospital but not public ambulance services
 - b. Legal, investigation and medico legal costs including an estimate of solicitor-client legal costs
2. Insurer expenses
3. Scheme expenses (ACT CTP Regulator levies)
4. Insurer profits

The chart below illustrates the efficiency of the scheme under each model design compared to the current scheme.

Chart 38: Estimated scheme efficiency by model design compared to current scheme



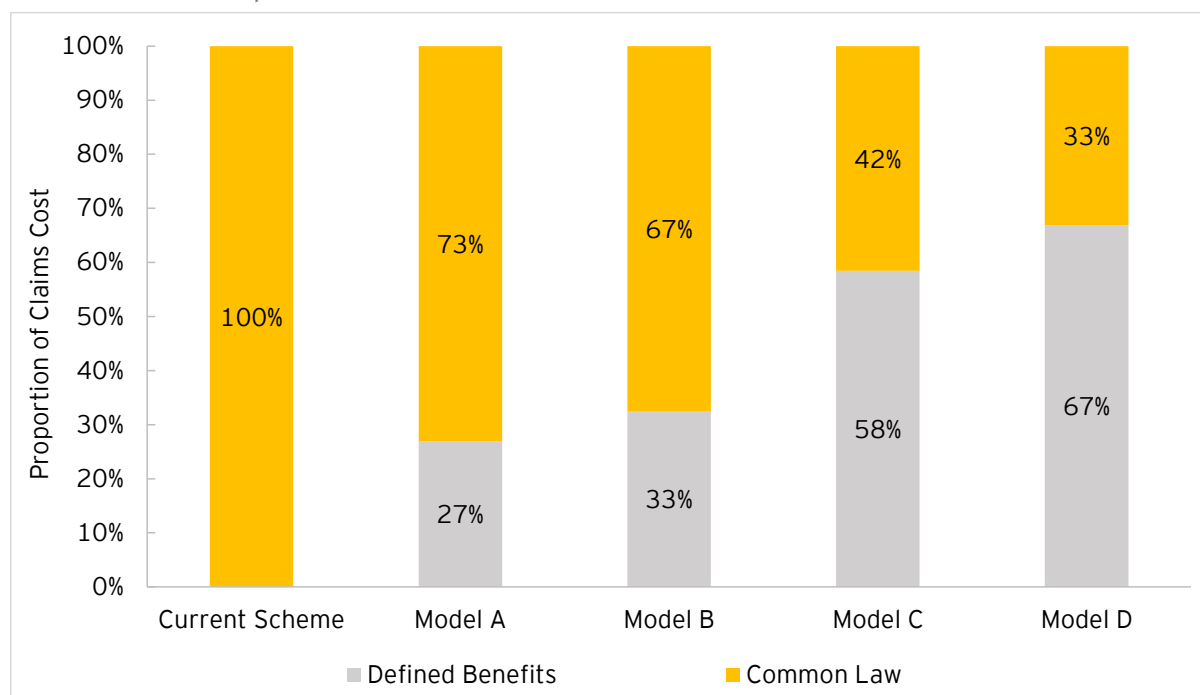
The chart shows the current estimated scheme efficiency of 56% is expected to gradually increase from Model A at 55% to Model D at 58%. In Model A the reason for the reduction in efficiency is due to insurer expenses and profit not reducing in line with the reduction in claims costs and the additional regulator levy (as these are held at a constant level across all models). For more details on insurer expenses and profits see Section 4.2.6

The main driver of the increase in scheme efficiency is the reduction in legal costs associated with increasing defined benefits and a reduction in common law numbers and benefits, offset by insurer expenses and profit not decreasing as much as the reduction in claims costs and the additional regulator levy. In addition the efficiency of intestate claims does not change in any of the models from the current scheme.

4.2.4 Split of defined benefits and common law

The distribution of benefits in each model varies between mostly defined benefits and mostly common law. Models A and B are most similar to the current scheme with most of the benefits paid at common law. Models C and D are more similar to schemes such as Victoria and the reformed NSW scheme with most benefits paid as defined benefits and with restrictions for accessing common law damages. The split of benefits received by claimants between common law and defined benefits is set out in the following chart excluding legal and investigation costs (and excluding estimated solicitor-client costs).

Chart 39: Estimated split of benefits between defined benefits and common law for not at-fault claims



Note: Claim costs above exclude all legal costs (including estimated solicitor-client fees) as it represents the benefits claimants receive

The above chart shows the proportion of defined benefits in each model for not at-fault claims increases from almost 0% in the current scheme (MANF benefits) to 27% under Model A and 33% under Model B. Under Models C and D the proportion increases significantly as defined benefits can be paid for up to five years and there is a quality of life defined benefit included in the design. Note that defined benefits make up 100% of at-fault claims.

4.2.5 Claim numbers

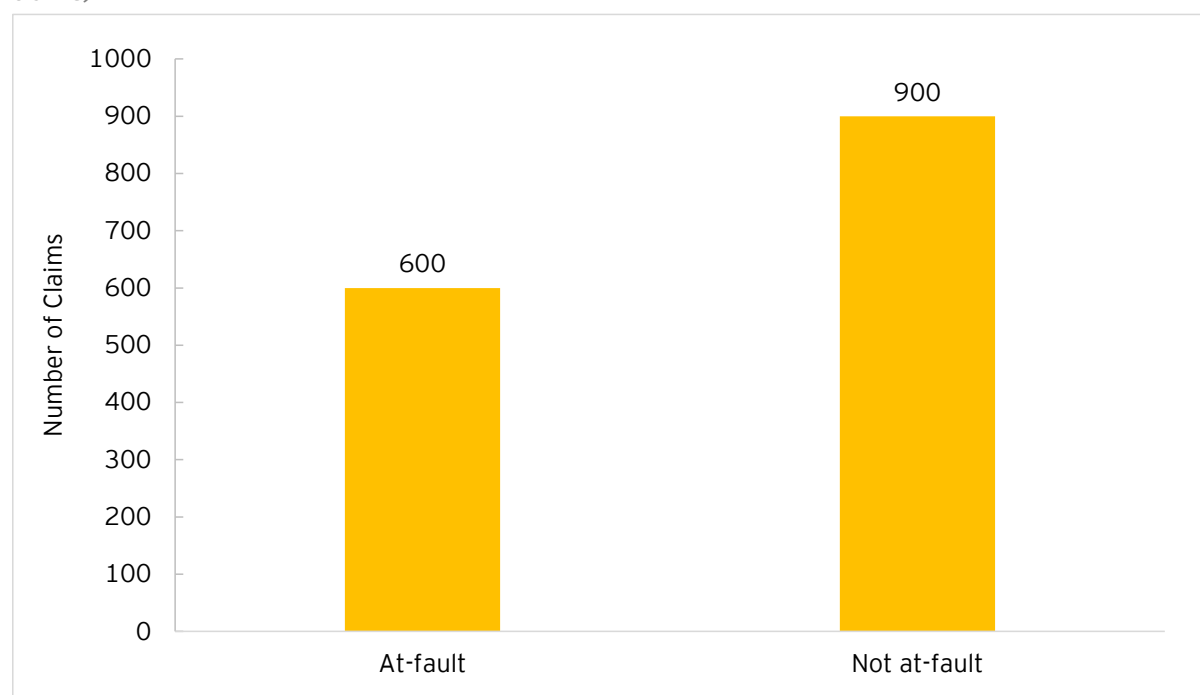
The number of claims accessing benefits under each model compared to the current scheme illustrates how cover is extended to more road users via defined benefits (more equitable cover) and the numbers accessing common law damages reduce across the models.

The following charts and tables set out the estimated claim numbers in relation to:

- ▶ The annual estimated potential claims population for at-fault and not at-fault claims per annum. We have separately identified the number of interstate claims
- ▶ The annual estimated number of not at-fault claims accessing common law with legal representation. For these claims we have also included estimates of the average size of legal and investigation costs per claim for party-party plaintiff legal costs, solicitor-client plaintiff legal costs and insurer legal and investigation costs
- ▶ The annual estimated number of claimants entitled to additional benefits once they meet the 5% and 10% WPI thresholds in Models C and D
- ▶ The annual estimated number of claims that are entitled to treatment, care and loss of earnings for defined benefits for not at-fault claims from one year onwards.

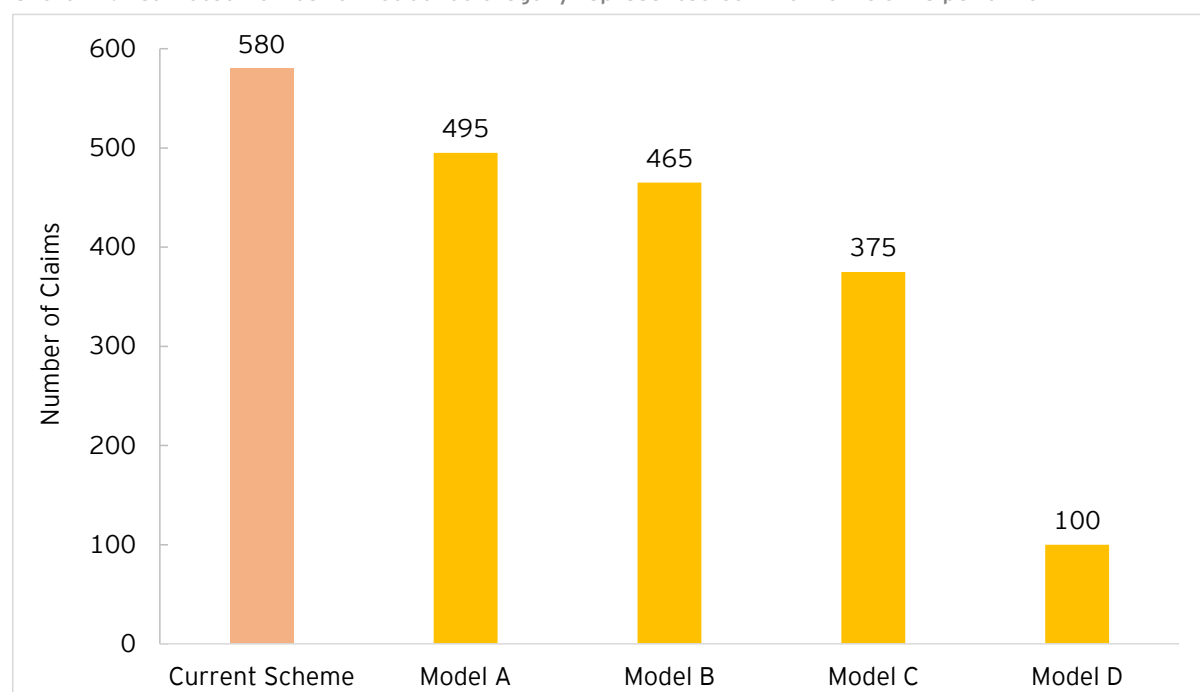
We have estimated a total potential claims population of 1,500 claims per annum split into 900 not at-fault (current scheme numbers) and 600 at-fault claims. Of the not at-fault claims we estimate about 75 are interstate claims. These numbers apply to each of the four model designs.

Chart 40: Estimated total potential population of defined benefit claims per annum (including interstate claims)



The estimated number of legally represented common law claims (excluding interstate claims) for each model design are set out in the following chart.

Chart 41: Estimated number of not at-fault legally represented common law claims per annum



The estimated number of legally represented claims in the current scheme is about 580 per annum (excluding interstate claims) and we estimate these numbers will reduce to 495, 465, 375 and 100 in each of Models A to D. The reductions in Models A and B are due to the inclusion of an Injury Scale Value (ISV) scale for general damages awards at common law, while the reduced numbers for Model C are due to the 10% WPI threshold for access to general damages at common law. For Model

D the numbers are significantly lower than all other models due to the 10% WPI threshold for access to common law remedies.

For each not at-fault common law legally represented claim, the average legal costs under each model are shown in the chart below, split into party-party costs, estimated solicitor-client costs and defendant/investigation costs.

Chart 42: Estimated average legal costs per not at-fault legally represented common law claim (excluding interstate claims)



Note: Average legal costs shown above are indicative only and represent the middle of a range of best estimates. Actual legal costs under the scheme could be lower or higher than shown.

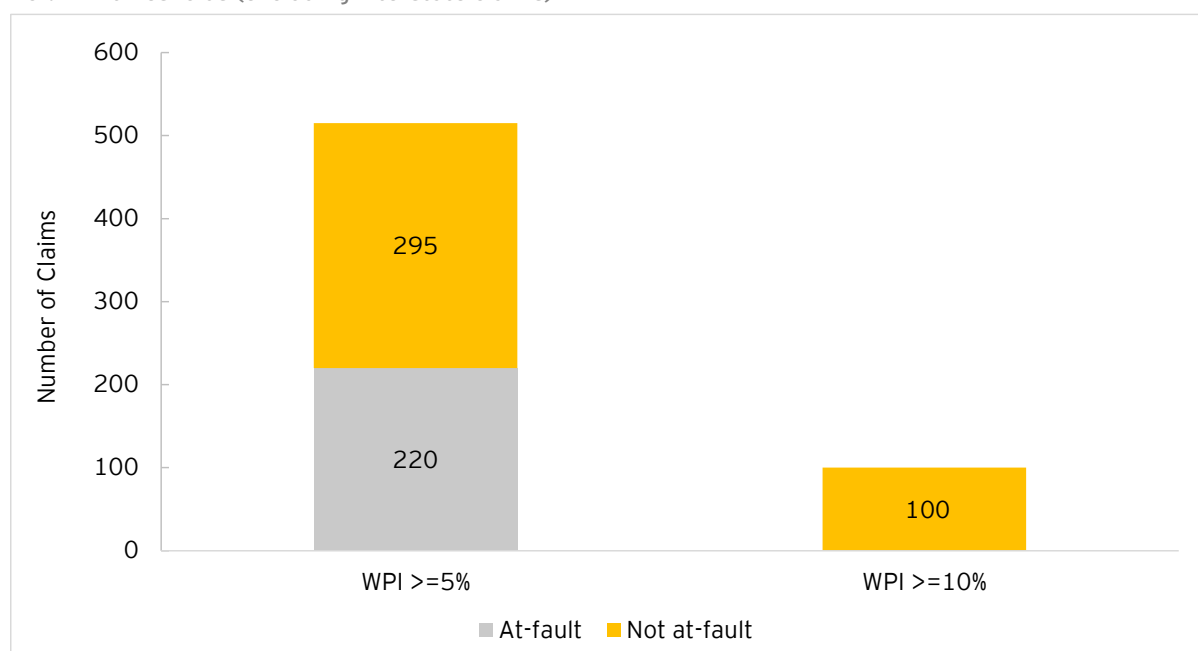
The main reasons for the reduction in average legal costs per legally represented claim at common law are:

- Reduction in numbers of overall common law claims (as shown in the previous chart) mainly due to the availability of defined benefits. The proportion of legally represented claims is expected to remain the same as the current scheme (about 70%) for Models A to C but in Model D all claims WPI 10% or higher are assumed to be legally represented
- Defined benefit payments already received will reduce the absolute amount of common law damages across the models.

Under Model D, average legal costs are high as the common law threshold of 10% WPI restricts common law to the most seriously injured claimants only. The estimated number of not at-fault claimants expected to fit this criteria is shown in the next chart.

Also illustrated in the next chart is the estimated number of both at-fault and not at-fault claims equal to or greater than 5% WPI. The 5% WPI threshold applies to the quality of life lump sum statutory benefit for Models C and D. These numbers exclude interstate claims.

Chart 43: Estimated annual number of claimants entitled to additional benefits once they meet the 5% and 10% WPI thresholds (excluding interstate claims)



For Models C and D claimants are entitled to additional benefits once they reach the 5% and 10% WPI thresholds. We estimate about 100 not at-fault claims out of the estimated potential population of not at-fault claims of 900 claims to be able to meet the 10% WPI threshold. For the 5% threshold we estimate about 220 at-fault and 295 not at-fault claims out of the estimated potential population of not at-fault claims 900 claims and at-fault numbers of 600 to meet the 5% threshold.

Note that the 10% WPI threshold does not apply to at-fault claimants as they do not have access to common law benefits (we estimate there would be about 65 at-fault claimants that are equal to or over 10% WPI).

We have estimated the number of not at-fault claims that are entitled to receive defined benefit treatment, care and loss of earnings from one year to five years after the accident date in the following three charts. Due to excesses applying for treatment and care and loss of earnings in the Victorian scheme (from which the ACT costings were based), we are unable to estimate the numbers receiving benefits before one year. The at-fault benefits are estimated to be about two thirds of the numbers in the following charts.

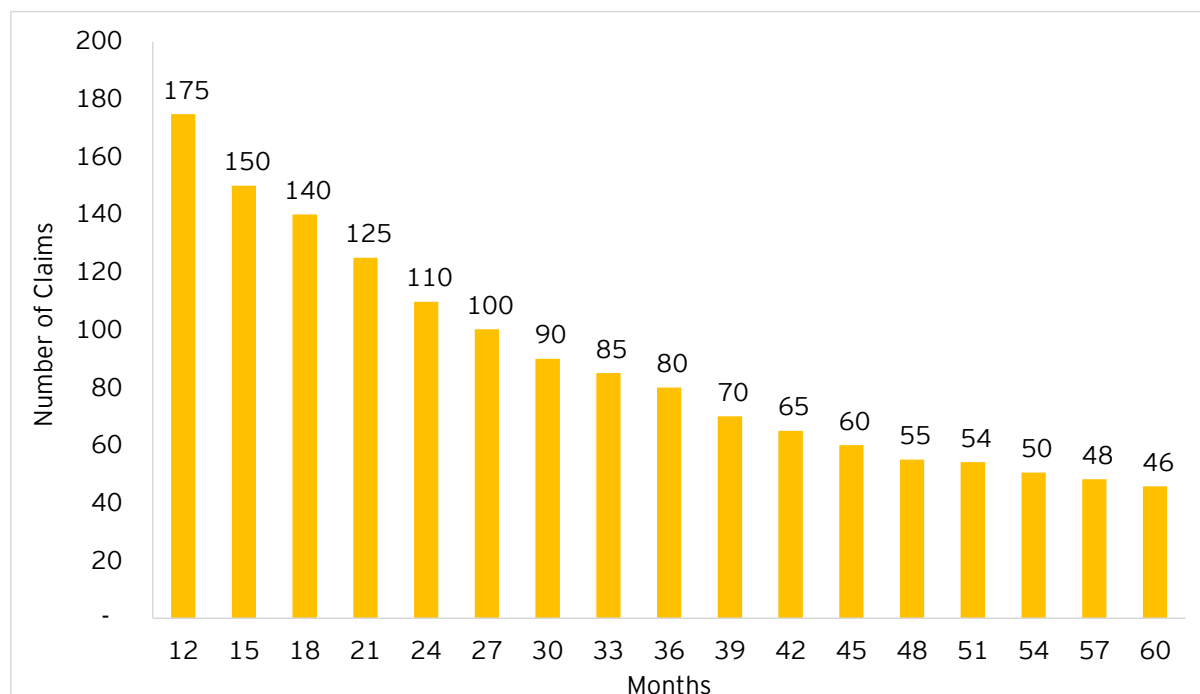
Note that the following three charts apply to Model D whilst only the treatment and care charts apply to Model C due to the benefit design. For Models A and B the charts are not applicable as defined benefits cease at six months for Model A and 12 months for Model B.

In all three charts below please note:

- It is claims receiving payments in the three months beginning at each period. For example, the 12 month figures relate to the number of claims receiving benefits in the three months from the 12 months to 15 months after the accident date.
- The same claims do not receive benefits each quarter. For example in the treatment chart below, for the 110 estimated claims receiving treatment in the 24 month figure, some may have received treatment benefits in the 21 month period and some may not have received benefits in the 21 month period. In other words, the number of unique claims receiving benefits after 60 months for treatment may be more than the estimated 46 claims.

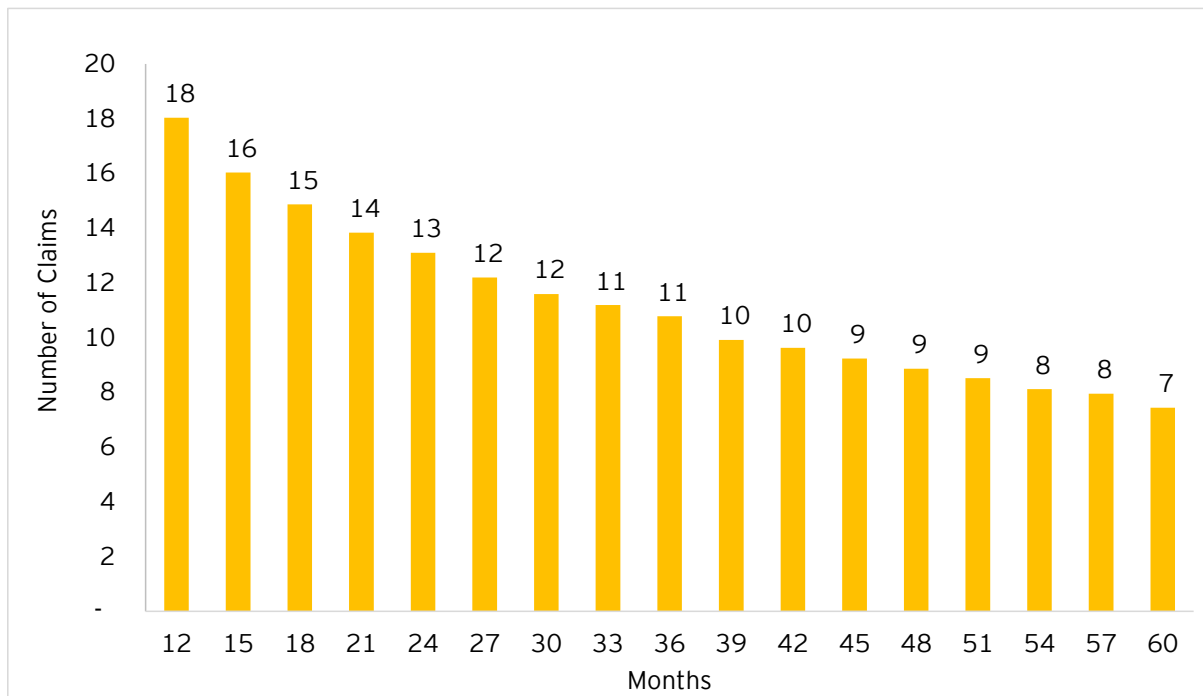
- ▶ The same claims do not receive economic loss, care and treatment in each period. For example in the loss of earnings chart for the 15 month period, the estimated 60 claims may or may not also receive treatment or care in that same period.
- ▶ You cannot add the numbers in each chart to estimate how many claims receive benefits in the same period as some claim will receive all three payments types in the same period and others will only receive one or two of the available payment types
- ▶ We have ignored any common law benefits paid to claimants in the charts below, i.e. they represent defined benefit payments only which claimants are entitled to.

Chart 44: Estimated annual number of not at-fault claimants receiving treatment payments from one year after the accident date



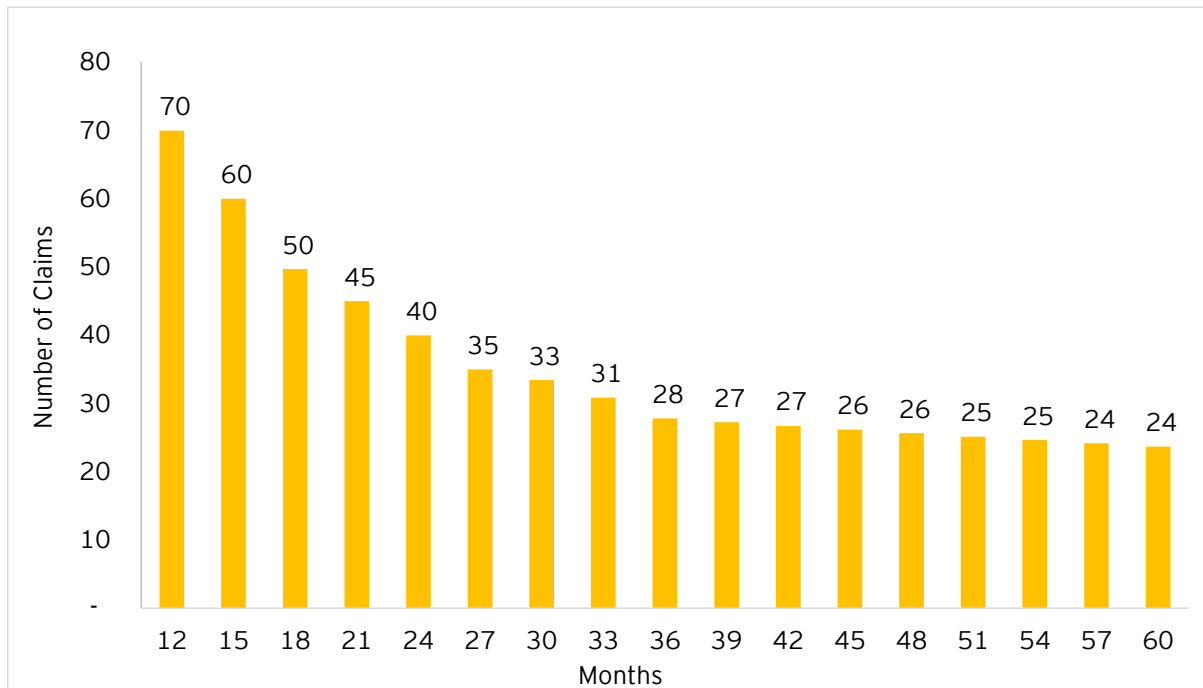
The estimated number of claims requiring treatment in each three month period out of the potential estimated 900 potential claims receiving defined benefits gradually reduces over time. Most of the claims requiring treatment from three years are those that meet the 10% WPI threshold. The average treatment benefit from three years is around \$1,300 per quarter (except for a small number of claims requiring surgery). Note that these amounts exclude treatment for LTCS claims.

Chart 45: Estimated annual number of not at-fault claimants receiving care payments from one year after the accident date



The estimated number of claims requiring care in each three month period out of the potential estimated 900 potential claims receiving defined benefits is small compared to those requiring treatment (i.e. varies from about one in six to one in ten claims receiving treatment) and they gradually reduce over time. Most of the claims requiring care from three years are those that meet the 10% WPI threshold. The average care benefit from three years is less than \$2,000 per quarter. Note that these amounts exclude treatment for LTCS claims.

Chart 46: Estimated annual number of claims with loss of earnings from one year



The estimated number of claims requiring loss of earnings in each three month period out of the potential estimated 900 potential claims receiving defined benefits is typically less than those

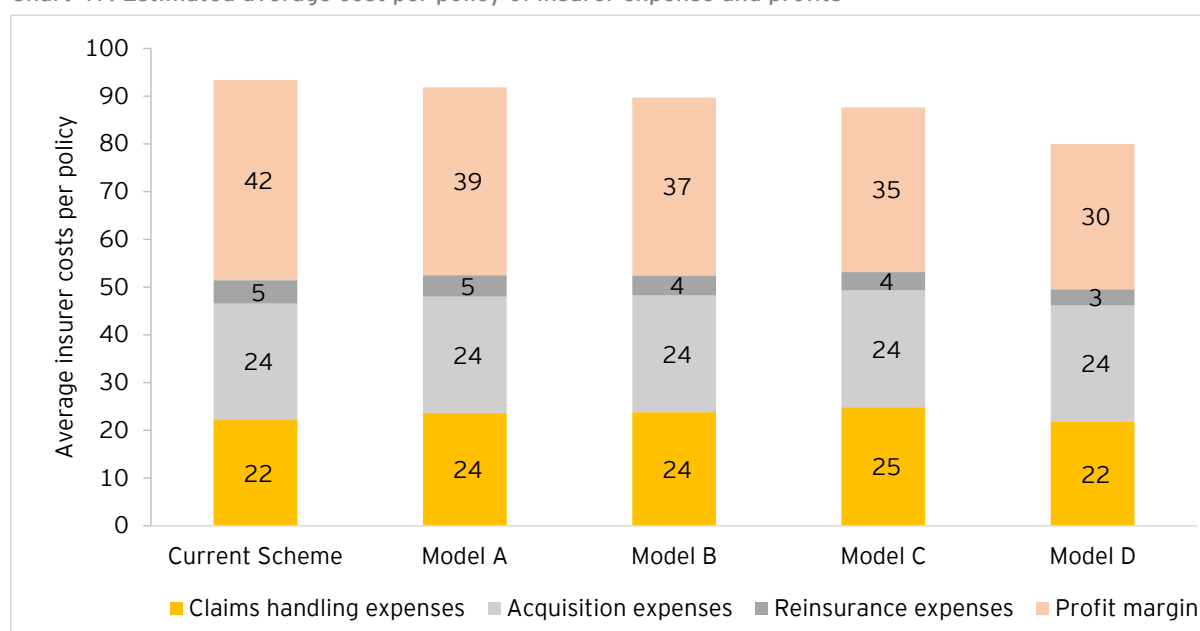
requiring treatment. As the numbers gradually reduce over time at longer durations, the number of claims receiving loss of earnings is about half the number receiving treatment. Most of the claims requiring loss of earnings from three years are those that meet the 10% WPI threshold. The average loss of earnings benefit from three years is around \$1,500 per quarter.

4.2.6 Insurer loadings

The average cost per policy of insurer expenses and profits under each model is derived from the current scheme as follows:

- Claims handling expenses - assumed to be higher as a proportion of claims costs than the current scheme (almost 6% of claim payments) as the availability of defined benefits increases the cost of handling claims for insurers. Hence the proportion of claims handling costs increases across from Model A to D in line with increasing defined benefits available
- Acquisition costs - assumed to remain at the same level as the current scheme (around \$24) as they are not likely to vary as the claim cost varies (a minor exception being commission costs; assumed to have a negligible impact)
- Reinsurance costs - assumed to remain at the same proportion of claim costs in the current scheme (around 1%)
- Profit margin - assumed to remain at the same proportion of claim costs in the current scheme (about 9%).

Chart 47: Estimated average cost per policy of insurer expense and profits



The level of insurer expenses does not change much between the current scheme and the four proposed model designs despite the reduction in claims costs whereas as the level of insurer profits reduces from \$42 in the current scheme in each model being only \$30 in Model D.

4.3 Other premium rate considerations

When a new CTP scheme is introduced, especially in a privately underwritten scheme, consideration needs to be given to two important issues that impact premium levels in the first few years of the new scheme. The ACT government will need to consider how to address these issues when drafting legislation. These issues are briefly described below.

4.3.1 Honeymoon effect

There are numerous examples in Australia and overseas countries of reforms to benefits of personal injury schemes resulting in better than expected claims experience for a number of years after the new benefits commence. The better than expected claims experience can also result in higher profits for insurers where they are underwritten by commercial insurers. We also recognise that the reverse can emerge with higher claims experience than expected. The actual outcome depends on the nature of the benefit reforms, the risks in the benefit design and the effectiveness of the implementation of a new Scheme. In particular, the extent to which scheme culture changes due to the legislation and the changes in the behaviour of claimants and service providers including insurers, lawyers, judges, and medical and allied health providers will impact the extent of the reduction in costs of a new personal injury scheme. **The** number of examples where the claims experience was better than expected significantly outweigh those where the experience was worse.

In many of these examples, there has been a significant reduction in claim numbers as well as a reduction in claims costs. Specific examples include:

- ▶ When the NSW CTP privatised Scheme commenced in 1989, average premiums were around \$350 per vehicle. Much better than expected claims experience in the first few years resulted in significantly higher profits for insurers than expected. Subsequently average premium levels reduced to around \$200
- ▶ The NSW CTP Scheme reforms in 1999 led to a more significant reduction in claim numbers than could be explained by the modest reduction in road casualties. Full claims reduced by over 40%. The cost of claims also reduced significantly more than expected, resulting in insurer profit margins in the first four years of the Scheme being nearly 30%
- ▶ In 1987, the major reforms to the NSW workers compensation scheme resulted in the claims cost reducing by substantially more than expected, resulting in the cost of the scheme being less than half expected. The major changes to the scheme were abolishing common law and redemptions of defined benefits. Subsequently the government made further legislative reforms which increased scheme benefits
- ▶ The 2012, NSW workers compensation reforms resulted in a significantly higher reduction in the number of claims and cost than expected. Subsequently the government made further legislative reforms which increased scheme benefits
- ▶ In all states, the state personal injury legislation reforms that occurred in 2002/2003 post the HIH collapse limited, restricted or modified common law in one form or another. For every state, the reduction in numbers of claims and the reduction in claims cost was more than expected
- ▶ In Canada, many state motor vehicle personal injury schemes have had benefit reforms in the last 25 years. Prior to the reforms, the schemes were essentially full common law schemes. In the five years that preceded the reforms, claims costs escalated by over 35% in a number of these schemes. In a number of these schemes the increase in claims costs was in part due to a significant increase in claim numbers pre-reform. After reform, the number of claims reduced in these schemes with the reduction varying by scheme. Not all schemes showed a longer term reduction in claims costs as a result of reforms.

We have estimated the cost of the new scheme in all of the design models assuming it is a mature scheme. However, it is, in our view, possible that the cost of the new scheme may end up being lower than expected especially in the first few years since:

- ▶ Claimants and their advisers (e.g. lawyers, medical practitioners) can take some time to be fully aware of their entitlements under the scheme leading to fewer reported claims in the early years and a lower cost of claims as illustrated above

- For at-fault claimants, we believe it will take some years for these claimants to be aware of their full entitlement to benefits while recognising that their level of awareness will be dependent on the extent to which the government, insurers and other stakeholders create the awareness of at-fault claimant's entitlements.

In this report we have referred to this impact as the “honeymoon” impact which comprises:

- Lower claim numbers and claims cost than we have included in the mature Scheme costing estimate
- If the experience of the new Scheme is more favourable than we expect then it will take a few years before the full cost of the Scheme can be properly assessed during which time premiums will be higher than required

We also recognise that it is possible for the costs in the new Scheme to be higher than we have estimated. However, it our view that this risk is lower than the claims cost being lower than we have estimated. How to address this issue will need to be considered when drafting the new legislation.

4.3.2 Unearned premium reserve

Unearned premium reserve is the portion of premiums written that relates to the unexpired portion of the policy term. In a new scheme, where the claims cost and premiums reduce to reflect a new benefit design, insurers will make additional profits on premiums already written prior to the implementation date of the new scheme, unless an adjustment is made to future premiums.

At the time a new scheme commences, insurers will be holding unearned premiums on policies which have been priced on the current scheme benefit design basis, yet insurers will be providing lower cost benefits. For example if Model D is selected for the new scheme design for benefits commencing on, say, 1 January 2019, then a 12-month policy written in July 2018 will provide coverage for claims occurring from July 2018 until June 2019. However, the cost of claims from 1 January 2019 onwards will be much lower than the current scheme by about \$120 (see Section 4.1 and Appendix B for details). Hence the premium charged in July 2018 reflecting the current scheme in absence of reforms is not representative of the claims costs which are expected to be paid out in the second half of the year (i.e. premium is higher than expected claims costs) creating an unearned premium surplus.

The unearned premium surplus is the extent to which the unearned premiums on the (higher) old scheme cost basis for the remaining policy term exceed the lower new scheme cost basis. If no adjustment is made then insurers will make additional profits from the unearned premium. For example, in the case of Model D the unearned surplus may be about \$60 per policy or in excess of \$15m for all policies.

There are a number of options that can be considered to ensure insurers do not earn the additional profit associated with the unearned premium reserve. Some options include:

- Require insurers to reduce premiums six months before the new claimant benefits apply by the corresponding amount of the unearned premium surplus
- Require insurers to reduce their premiums from the implementation date of the new scheme by the corresponding amount of the unearned premium surplus for a period which could vary from 12 months or more
- Require insurers to refund each policyholders the excess premium they paid
- The ACT CTP Regulator could claw back the unearned premium surplus from each insurer and use it for other purposes (e.g. reduce future CTP Regulator levies, use the funds for road safety, etc.)

There are advantages and disadvantages of each option. There are financial, fairness, timing and practical implementation issues (including IT changes) to be considered in deciding the best option for ACT and it is beyond the scope of this report to consider each option in detail.

5. Risks and uncertainty

5.1 Key assumptions for costing the four model designs

In our professional capacity we are required to highlight and discuss the risks and uncertainty associated with our results.

In undertaking our costing of the four model designs we have made a number of key assumptions about which there is significant uncertainty and risk. These key assumptions are discussed in Section 3.

5.2 Uncertainty

5.2.1 General uncertainty

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. Therefore, actual claims experience may emerge at levels higher or lower than the actuarial estimates.

This report contains results relating to the current ACT CTP Scheme and the four model designs proposed for consideration. Given that there is no actual claims experience for the four model designs, the results relating to them have been estimated based on relevant experience in the current ACT CTP scheme, the Victorian CTP scheme, the Queensland CTP scheme and the NSW CTP scheme. However, as there is no actual claims experience for the four model designs naturally the uncertainty associated with results relating to them is greater than for the current scheme results.

In recent years, interest rates have been very volatile and during the last few years, interest rates have fallen substantially although they have recently increased. The reduction in interest rates has reduced the investment income insurers earn on their premiums which is used to pay claims. Consequently insurers have increased premiums to offset the fall in interest rates. It is not possible to predict whether interest rates will increase or fall in the future. We have not considered the impact future changes in interest rates will have on the estimated premiums for the current Scheme or the four proposed model designs. This risk will impact both the current and the proposed four model designs in the same direction and by similar proportions. Similar comments apply to assumed wage and price inflation within our models.

5.2.2 Uncertainty - current scheme premiums

As we adopted ACT insurers' estimates of the current scheme costs in their filed premiums up to December 2017 with the ACT CTP Regulator, we have not undertaken a ground up estimate of the cost of the current ACT scheme. Nor have we undertaken an assessment of the adequacy or otherwise of ACT insurers' filed premiums.

Current ACT CTP premium rates as assessed by each insurer are subject to significant uncertainty as described in Section 5.2.1 above.

5.2.3 Uncertainty - costing of the four model designs

There is significant additional uncertainty and limitation associated with our four model design costing estimates, much more than for the estimates of the cost of the current scheme. Specific areas of uncertainty and limitations in the costing estimates of the four proposed model designs are discussed in Sections 3 and 4 as relevant. Other areas of uncertainty include:

- The drafting of legislation including regulations and guidelines is yet to commence; as a result, the costing estimates are uncertain. Any differences in the assumed details of the content or

interpretation of the Act, regulations and guidelines on which the costings in this report are based will result in changes to the estimates of the cost per policy and ultimately the premiums vehicle owners pay.

- ▶ The costing estimates have been developed by reference to the claims experience from the current ACT, Victorian, Queensland and NSW CTP schemes as well as the costing estimates of the new NSW CTP scheme which commenced operation on 1 December 2017. Our costing estimates are based on the assumption that the claims cost in the four model designs, with the exception of specific variations we have made, will reflect the claims experience observed in the reference schemes after allowing for different benefit design, demographic and operational differences. It is not possible to predict whether the claims experience of the four model designs will reflect the claims experience of the relevant reference scheme including the adjustments made.
- ▶ The costing estimates and metrics are based on an assumption that the estimated total legal costs (i.e. party-party costs plus solicitor-client costs) are at the same level as in the NSW CTP scheme for similar claims sizes in each scheme. This is a material source of uncertainty in the costing estimates and metrics for the current scheme and also the four model designs as the level of solicitor-client costs in the current ACT scheme is unknown.
- ▶ A further reason for uncertainty in our costing estimates for the four model designs is that there is no actual claims experience of the model to rely upon other than comparable experience of other schemes in Australia.
- ▶ Each of the four model designs will represent a significant change for all stakeholders that interact with the scheme. It is not possible to accurately estimate the impact of behavioural changes that may result from these changes. This difficulty is further increased as the four model designs will impact stakeholders differently and therefore their responses to the new design will differ.
- ▶ In the current Scheme, insurers operate competitively within the guidelines set by the ACT CTP Regulator. Under any of the four model designs, the powers the ACT CTP Regulator will have to regulate premiums has not yet been determined. In particular, what, if any, allowance insurers will be required to comply with to address the possibility of a lower cost in the early years of the scheme and to avoid insurers making excess profits from the surplus in current scheme premiums arising from the unearned premium reserve. This is a source of additional uncertainty around the premium levels that will be charged by insurers in the early years of the jury's selected model.
- ▶ The estimates of average premiums rely on the costing estimate of the average premiums as well as the estimation of how each vehicle class will be affected by the benefits under each of the four model designs. As a result, the estimates of average premium by class are more sensitive to underlying assumptions resulting in the uncertainty in their estimates being much higher than the average premium uncertainty from the costing.

6. Reliance and limitations

In our professional capacity and EY operating policy requirements, we are required to state the reliance and limitations of our report.

In undertaking this costing analysis, reliance has been placed upon the data provided to us by the ACT CTP Regulator, the Victorian Transport Accident Commission, the State Insurance Regulatory Authority, Motor Accident Insurance Commission, Roads and Maritime Services and VicRoads. With regards to the ACT CTP Regulator data, we are specifically relying on the accuracy by which insurers have provided their data and classified appropriate payment types and injury severity coding and that this allocation has been accurate over time.

We have also made judgements and estimates where data was not available. 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 the report document should be made only after studying the report in its entirety, 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 herein.

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 our estimates are normal and are to be expected.

We have described certain reliance and limitations of our analysis throughout the Report particularly in Sections 1, 3, 4 and 5.

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 government in respect of this report.

We disclaim all liability to any other party for all costs, loss, damage and liability that any third party may suffer or incur arising from or relating to or in any way connected with the contents of our advice, the provision of our advice to the other party or the reliance upon our advice by the other party. We are providing specific advice only for this engagement and for no other purpose and we disclaim any responsibility for the use of our advice for a different purpose or in a different context.

Neither the whole of this, or any part thereof, or any reference thereto may be published in any document, statement or circular nor in any communication with other third parties without prior EY written approval of the form and context in which it will appear.

We require that if the Report is distributed to third parties, it must be distributed in its entirety

Appendix A - ISV & WPI Scales

Appendix A - ISV & WPI Scales

ISV/WPI	Model A (ISV)	Model B (ISV)	Model C & D (WPI)	
	General Damages	General Damages	Quality of Life	General Damages
0	5,000	-	-	-
1	7,500	2,500	1,400	2,000
2	10,000	5,000	2,800	4,000
3	12,500	7,500	4,200	6,000
4	15,000	10,000	5,600	8,000
5	18,000	13,000	7,000	10,000
6	21,000	16,000	9,100	13,000
7	24,000	19,000	11,200	16,000
8	27,000	22,000	13,300	19,000
9	30,000	25,000	15,400	22,000
10	39,000	32,000	17,500	25,000
11	48,000	39,000	19,950	35,000
12	57,000	46,000	22,400	38,500
13	66,000	53,000	24,850	42,000
14	75,000	60,000	27,300	45,500
15			29,750	49,000
16			32,200	52,500
17			34,650	56,000
18			37,100	59,500
19			39,550	63,000
20			42,000	63,500
21			44,800	64,000
22			47,600	68,000
23			50,400	72,000
24			53,200	76,000
25			56,000	80,000
26			58,800	84,000
27			61,600	88,000
28			64,400	92,000
29			67,200	96,000
30			70,000	100,000
31			72,800	104,000
32			75,600	108,000
33			78,400	112,000
34			81,200	116,000
35			84,000	120,000
36			86,800	124,000
37			89,600	128,000
38			92,400	132,000
39			95,200	136,000
40			98,000	140,000
41			100,800	144,000
42			103,600	148,000
43			106,400	152,000
44			109,200	156,000
45			112,000	160,000
46			114,800	164,000
47			117,600	168,000
48			120,400	172,000
49			123,200	176,000
50			126,000	180,000
51			130,480	186,400
52			134,960	192,800

ISV/WPI	Model A (ISV)	Model B (ISV)	Model C & D (WPI)	
	General Damages	General Damages	Quality of Life	General Damages
53			139,440	199,200
54			143,920	205,600
55			148,400	212,000
56			152,880	218,400
57			157,360	224,800
58			161,840	231,200
59			166,320	237,600
60			170,800	244,000
61			175,280	250,400
62			179,760	256,800
63			184,240	263,200
64			188,720	269,600
65			193,200	276,000
66			197,680	282,400
67			202,160	288,800
68			206,640	295,200
69			211,120	301,600
70			215,600	308,000
71			220,080	314,400
72			224,560	320,800
73			229,040	327,200
74			233,520	333,600
75			238,000	340,000
76			242,480	346,400
77			246,960	352,800
78			251,440	359,200
79			255,920	365,600
80			260,400	372,000
81			264,880	378,400
82			269,360	384,800
83			273,840	391,200
84			278,320	397,600
85			282,800	404,000
86			287,280	410,400
87			291,760	416,800
88			296,240	423,200
89			300,720	429,600
90			305,200	436,000
91			309,680	442,400
92			314,160	448,800
93			318,640	455,200
94			323,120	461,600
95			327,600	468,000
96			332,080	474,400
97			336,560	480,800
98			341,040	487,200
99			345,520	493,600
100			350,000	500,000

Appendix B - Detailed results including full premium breakdown by Model

Appendix B - Model Comparison

Summary of Models A, B, C and D - Average passenger vehicle nil ITC premium effective 1 July 2017 (\$) (2017/18 Underwriting year)

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

Benefit Type	Current ACT premium	Model A		Model B		Model C		Model D	
		Estimated Premium	Difference to current	Estimated Premium	Difference to current	Estimated Premium	Difference to current	Estimated Premium	Difference to current
General Damages / Quality of Life	116	82	-34	68	-48	39	-77	39	-77
Loss of Earnings	79	85	6	90	11	85	6	69	-10
Treatment - Private medical costs	44	52	8	54	10	61	17	56	12
Treatment - Public hospital costs	12	19	7	19	7	19	7	19	7
Care	19	16	-3	17	-2	20	1	16	-3
Death	1	1	0	2	1	4	3	5	4
Legal Costs - Defendant & Investigation	31	27	-4	21	-10	16	-15	10	-21
Legal Costs - Plaintiff costs (Party-Party)	52	46	-6	39	-13	34	-18	25	-27
Interstate claims	37	32	-5	32	-5	32	-5	32	-5
Total claims cost - range	391	336 to 384	-56 to -7	312 to 372	-79 to -20	275 to 345	-116 to -47	232 to 310	-159 to -81
Claims handling expenses	22	24	1	24	2	25	3	22	-0
Acquisition expenses	24	24	0	24	0	24	0	24	0
Reinsurance	5	5	-0	4	-1	4	-1	3	-1
Profit margin	42	39	-3	37	-5	35	-7	30	-12
Nominal Defendant Levies (excl LTCS)	20	17	-3	16	-4	12	-8	10	-10
Motorcycle subsidy impact	0	7	7	7	7	16	16	16	16
GST	50	48	-3	45	-5	43	-8	38	-13
CTP Regulator Levy	1	10	9	10	9	10	9	10	9
Average passenger vehicle premium excl LTCS Levy - range	556	510 to 560	-46 to 4	480 to 540	-76 to -16	440 to 510	-116 to -46	385 to 465	-171 to -91

* totals may not add due to rounding

Legal Costs - estimated Solicitor-Client Plaintiff costs	32	26	-6	20	-12	14	-18	9	-23
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** the estimated Solicitor-Client Plaintiff costs have been included within the other heads of damages in the table above

Appendix B - Model A

Average passenger vehicle nil ITC premium effective 1 July 2017 (\$) (2017/18 Underwriting year)

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							
Benefit Type	Defined benefits		Common Law	% Change from Current Scheme (NAF only)	Proposed Model Total Premium	Current ACT Total Premium	Difference from current
	AF	NAF	NAF				
General Damages / Quality of Life	0	0	82	-30%	82	116	-34
Loss of Earnings	5	6	74	2%	85	79	6
Treatment - Private medical costs	14	18	20	-13%	52	44	8
Treatment - Public hospital costs	8	11	0	-6%	19	12	7
Care	0	0	16	-15%	16	19	-3
Death	0	0	1	6%	1	1	0
Legal Costs - Defendant & Investigation	0	1	26	-14%	27	31	-4
Legal Costs - Plaintiff costs (Party-Party)	2	2	42	-16%	46	52	-6
Interstate claims	0	0	32	-15%	32	37	-5
Total claims cost - range	27 to 31	35 to 41	273 to 313	-21% to -10%	336 to 384	391	-56 to -7
Claims handling expenses					24	22	1
Acquisition expenses					24	24	0
Reinsurance					5	5	-0
Profit margin					39	42	-3
Nominal Defendant Levies (excl LTCS)					17	20	-3
Motorcycle subsidy impact					7	0	7
GST					48	50	-3
CTP Regulator Levy					10	1	9
Average passenger vehicle premium excl LTCS Levy - range					510 to 560	556	-46 to 4

Legal Costs - estimated Solicitor-Client Plaintiff costs			26	-18%	26	32	-6
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Appendix B - Model B

Average passenger vehicle nil ITC premium effective 1 July 2017 (\$) (2017/18 Underwriting year)

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							
Benefit Type	Defined benefits		Common Law	% Change from Current Scheme (NAF only)	Proposed Model Total Premium	Current ACT Total Premium	Difference from current
	AF	NAF	NAF				
General Damages / Quality of Life	0	0	68	-42%	68	116	-48
Loss of Earnings	7	9	74	6%	90	79	11
Treatment - Private medical costs	16	22	16	-13%	54	44	10
Treatment - Public hospital costs	8	11	0	-6%	19	12	7
Care	0	1	16	-10%	17	19	-2
Death	1	0	1	6%	2	1	1
Legal Costs - Defendant & Investigation	0	1	20	-33%	21	31	-10
Legal Costs - Plaintiff costs (Party-Party)	2	3	34	-29%	39	52	-13
Interstate claims	0	0	32	-15%	32	37	-5
Total claims cost - range	31 to 37	43 to 51	238 to 284	-28% to -14%	312 to 372	391	-79 to -20
Claims handling expenses					24	22	2
Acquisition expenses					24	24	0
Reinsurance					4	5	-1
Profit margin					37	42	-5
Nominal Defendant Levies (excl LTCS)					16	20	-4
Motorcycle subsidy impact					7	0	7
GST					45	50	-5
CTP Regulator Levy					10	1	9
Average passenger vehicle premium excl LTCS Levy - range					480 to 540	556	-76 to -16

Legal Costs - estimated Solicitor-Client Plaintiff costs			20	-37%	20	32	-12
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Appendix B - Model C

Average passenger vehicle nil ITC premium effective 1 July 2017 (\$) (2017/18 Underwriting year)

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							
Benefit Type	Defined benefits		Common Law	% Change from Current Scheme (NAF only)	Proposed Model Total Premium	Current ACT Total Premium	Difference from current
	AF	NAF	NAF				
General Damages / Quality of Life	16	5	18	-80%	39	116	-77
Loss of Earnings	13	18	54	-8%	85	79	6
Treatment - Private medical costs	20	26	15	-6%	61	44	17
Treatment - Public hospital costs	8	11	0	-6%	19	12	7
Care	2	3	15	-5%	20	19	1
Death	3	0	1	6%	4	1	3
Legal Costs - Defendant & Investigation	1	1	14	-52%	16	31	-15
Legal Costs - Plaintiff costs (Party-Party)	5	5	24	-45%	34	52	-18
Interstate claims	0	0	32	-15%	32	37	-5
Total claims cost - range	60 to 76	61 to 77	154 to 192	-45% to -31%	275 to 345	391	-116 to -47
Claims handling expenses					25	22	3
Acquisition expenses					24	24	0
Reinsurance					4	5	-1
Profit margin					35	42	-7
Nominal Defendant Levies (excl LTCS)					12	20	-8
Motorcycle subsidy impact					16	0	16
GST					43	50	-8
CTP Regulator Levy					10	1	9
Average passenger vehicle premium excl LTCS Levy - range					440 to 510	556	-116 to -46

Legal Costs - estimated Solicitor-Client Plaintiff costs			14	-56%	14	32	-18
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Appendix B - Model D

Average passenger vehicle nil ITC premium effective 1 July 2017 (\$) (2017/18 Underwriting year)

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							
Benefit Type	Defined benefits		Common Law	% Change from Current Scheme (NAF only)	Proposed Model Total Premium	Current ACT Total Premium	Difference from current
	AF	NAF	NAF				
General Damages / Quality of Life	16	5	18	-80%	39	116	-77
Loss of Earnings	15	20	34	-31%	69	79	-10
Treatment - Private medical costs	20	26	10	-17%	56	44	12
Treatment - Public hospital costs	8	11	0	-6%	19	12	7
Care	2	3	11	-26%	16	19	-3
Death	4	0	1	6%	5	1	4
Legal Costs - Defendant & Investigation	1	1	8	-71%	10	31	-21
Legal Costs - Plaintiff costs (Party-Party)	5	6	14	-62%	25	52	-27
Interstate claims	0	0	32	-15%	32	37	-5
Total claims cost - range	61 to 81	62 to 82	110 to 146	-56% to -42%	232 to 310	391	-159 to -81
Claims handling expenses					22	22	-0
Acquisition expenses					24	24	0
Reinsurance					3	5	-1
Profit margin					30	42	-12
Nominal Defendant Levies (excl LTCS)					10	20	-10
Motorcycle subsidy impact					16	0	16
GST					38	50	-13
CTP Regulator Levy					10	1	9
Average passenger vehicle premium excl LTCS Levy - range					385 to 465	556	-171 to -91

Legal Costs - estimated Solicitor-Client Plaintiff costs			9	-72%	9	32	-23
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