TAYLOR FRY

Motor Accident Insurance Commission

Annual review of premium components as at 31 December 2024

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1 April 2025

Agenda

1. Overview
2. Claim frequency
3. Severity profile
4. Claim size
5. Summary

Appendix

1. Economic parameters
2. Risk premium uncertainties

1

Overview

Risk premium

Previous annual review
Dec-23

$190.37

TF Advised

Frequency: 0.1590%
ACS: $119,730

This annual review
Dec-24

$197.36

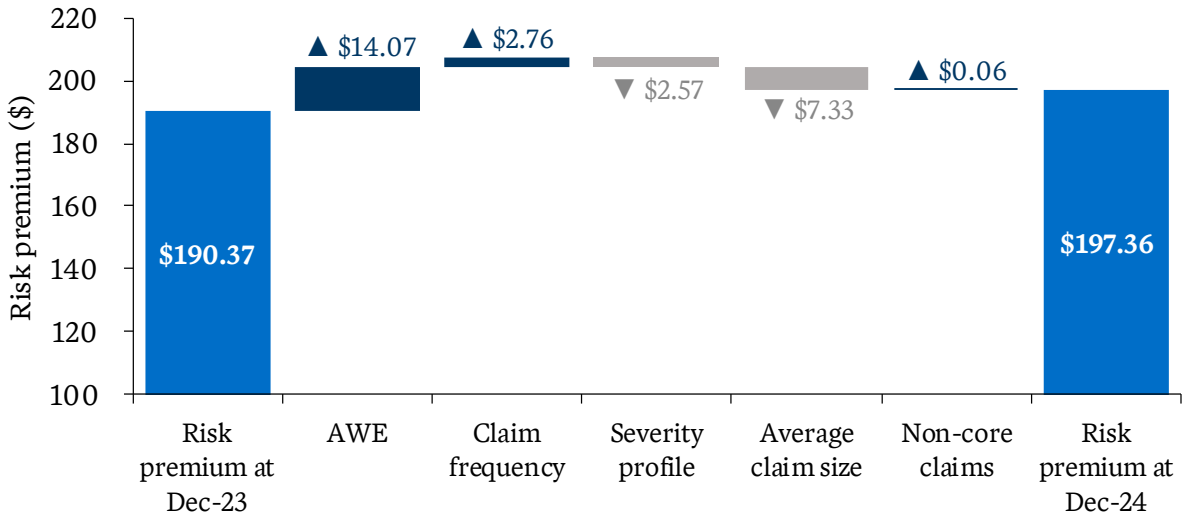
TF Advised

Frequency: 0.1643%
ACS: $120,122

Change since the Dec-23 review

The estimated risk premium at Dec-24 of **$197.36** is $6.99 higher than our estimate at Dec-23

- AWE inflation results in an increase of $14.07
- The core claim frequency assumption has increased by 1%, resulting in an increase of $2.76
- The average claim size assumption has decreased due to the combined effect of:
  - A weakened severity profile (decrease of $2.57)
  - Lower core ACS assumptions (decrease of $7.33)
- Changes in non-core claims result in a small increase of $0.06, mostly due to:
  - Strengthened assumptions for workers compensation claims mostly offset by lower average claim size selections for NSW-postcode and interstate sharing claims



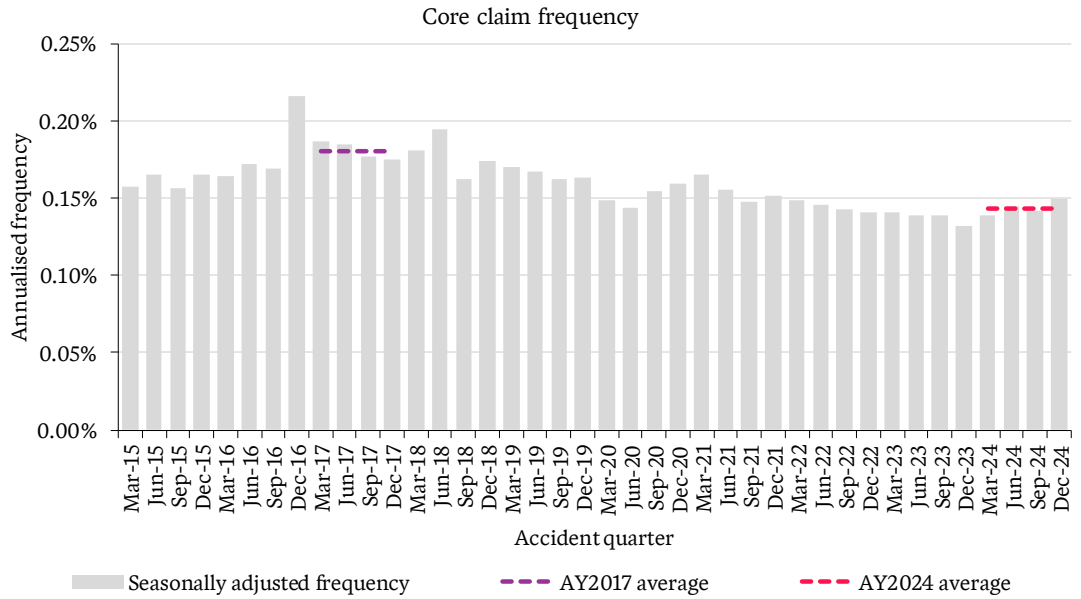
2

Claim frequency

Core claim frequency

Long-term trends | Experience | Key risks

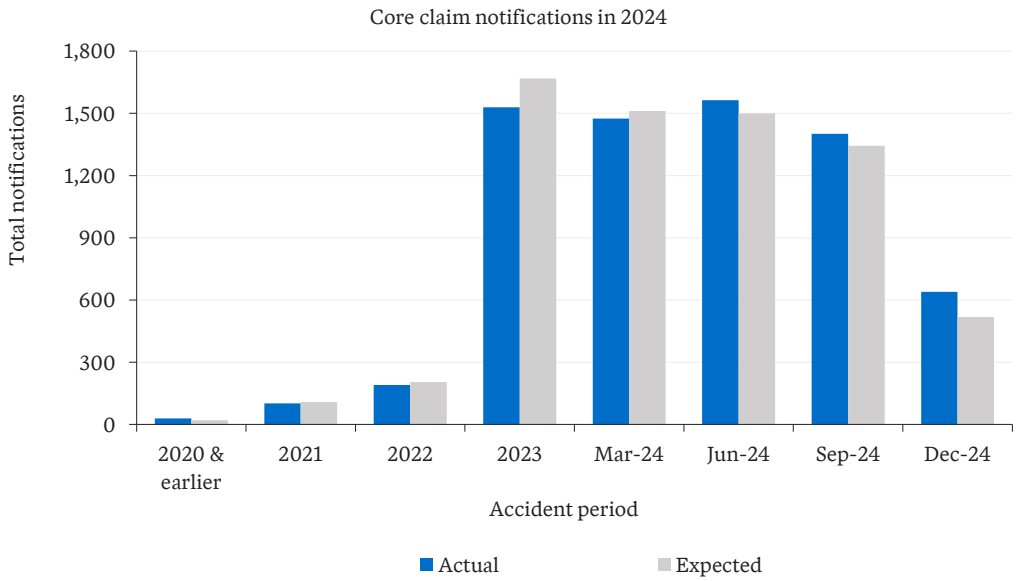
- Ultimate frequency for core claims has decreased 21% since 2017
- The increase in frequency from 2015 to 2017 is thought in part to be due to an increase in claims farming activities
- The decrease since 2017 is likely due to:
  - Measures to combat claims farming culminating in the December 2019 legislation and prosecutions under that Act from 2022
  - Low traffic volumes and changes in WFH patterns following COVID-19
  - Safer cars and improved road safety measures such as the introduction of new cameras to detect mobile phone use and failure to wear a seatbelt
- Experience over AY2024 may represent a flattening of this downward trend or the beginning of an upward trend



Note: Frequency projections are adjusted for seasonality, and historical impacts of COVID-19 and the Eastern Australian Floods have been removed for affected quarters up to Mar-22.

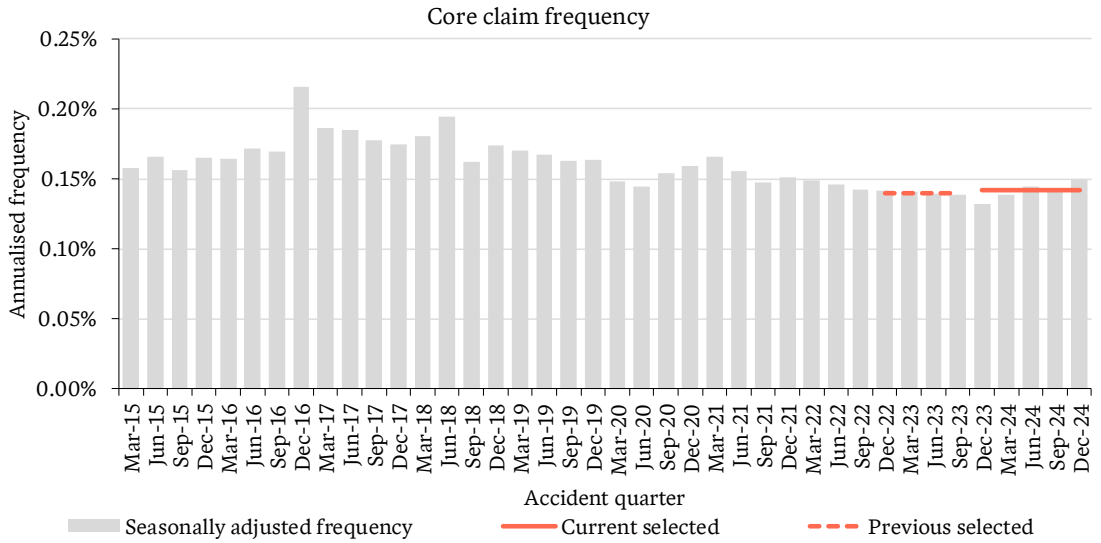
Core claim notifications emerged 1% higher than forecast

- Frequency estimates by accident quarter are made using a claim notification forecast model
- The need to strengthen or weaken those forecasts is assessed by comparing notification forecasts to actual experience
- Total notifications in 2024 were 1% higher than our notification forecasts made at Dec-23
  - This is mainly driven by higher-than-expected experience for the 2024 accident year
  - Partially offset by lower-than-expected experience for the 2023 accident year



Core claim frequency projection

- In response to the higher than forecast notification experience over 2024 our core claim frequency assumption has increased by 1%
  - From 0.1400% at Dec-23 to 0.1420%
- To give more weight to the recent increase in frequency, the core claim frequency assumption has been selected as the average of two scenarios:
  1. 1-year average over Dec-23 to Sep-24
     Frequency calibrated under our usual approach of a 1-year average *excluding* the latest accident quarter
  2. 1-year average over Mar-24 to Dec-24
     Frequency calibrated to a 1-year average *including* the latest accident quarter
- It is too early to tell whether the experience of AY2024 indicates a flattening of the downward trend observed since Mar-21 or whether we are now beginning to see an increasing trend – the responsiveness of our assumptions to recent experience reflects this uncertainty



Note: Frequency projections are adjusted for seasonality, and historical impacts of COVID-19 and the Eastern Australian Floods have been removed for affected quarters up to Mar-22.

Key risks – claim frequency

- Frequency has been the main contributor to changes in risk premium over the last several years
- The future trend in frequency is uncertain given the historical volatility in frequency

National trend

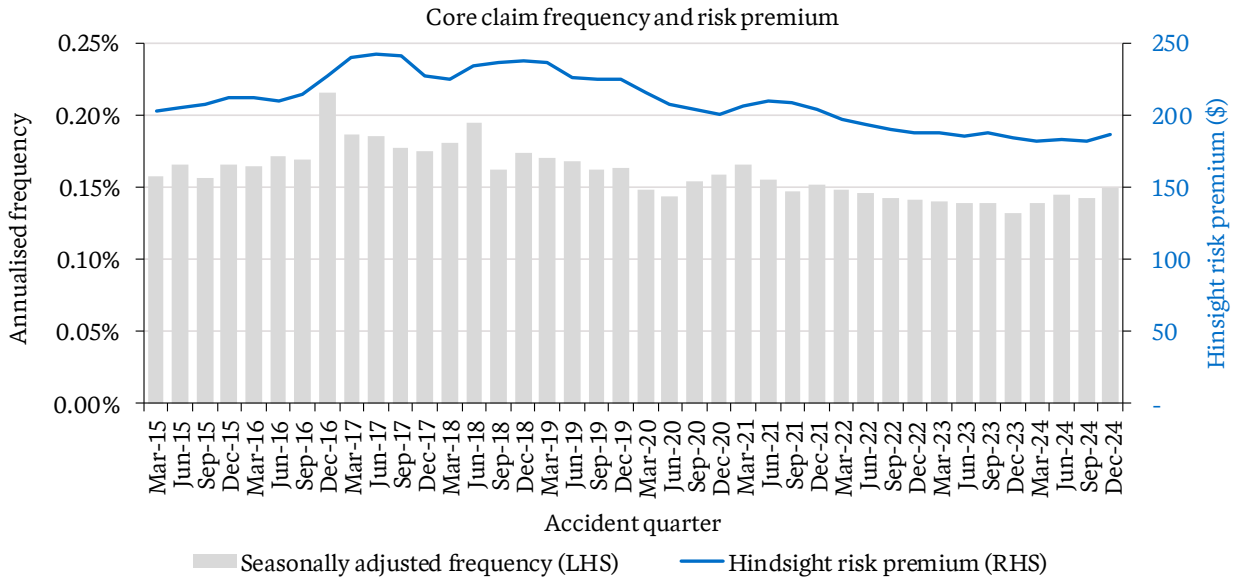
Frequency has picked up in some other states notably NSW and SA – will QLD follow?

Traffic volume

Traffic volume decreased during the Dec-24 quarter – will the recent increase in frequency persist?

Behaviour change

Are people lodging more claims due to insurers' increasing focus on direct claims? Given the overall uncertainty we have taken a more responsive approach this time.



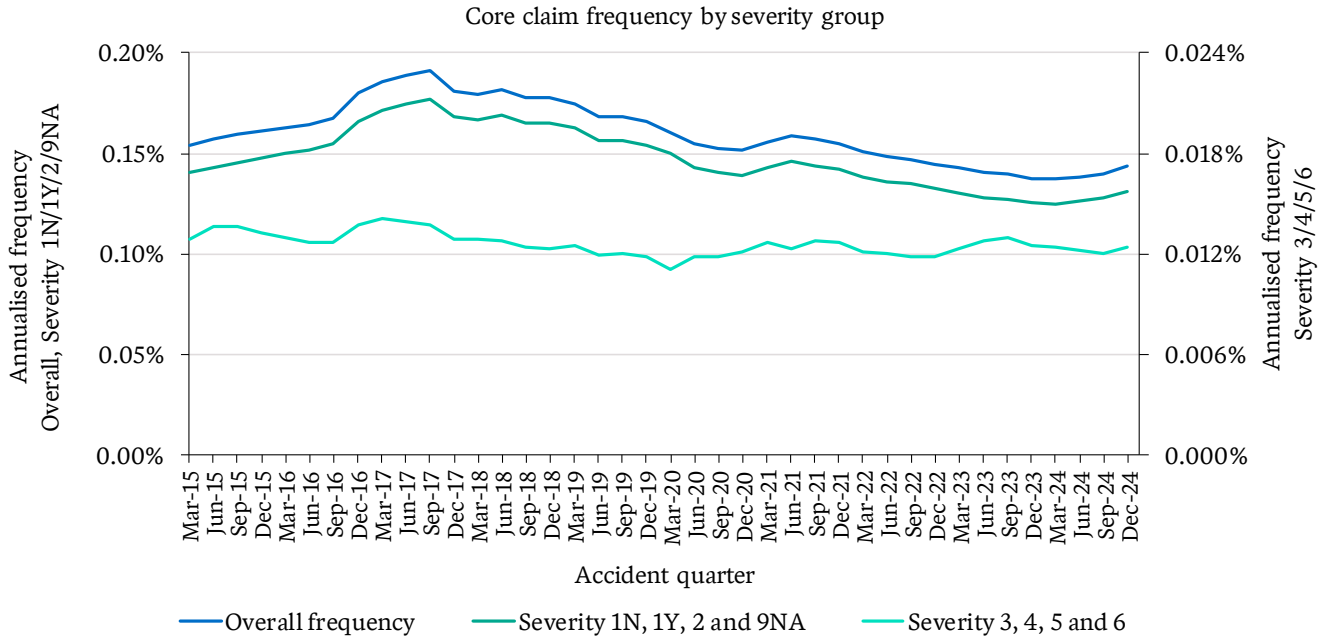
Note: The hindsight risk premium series reflects a 4-quarter moving average.

3

Severity profile

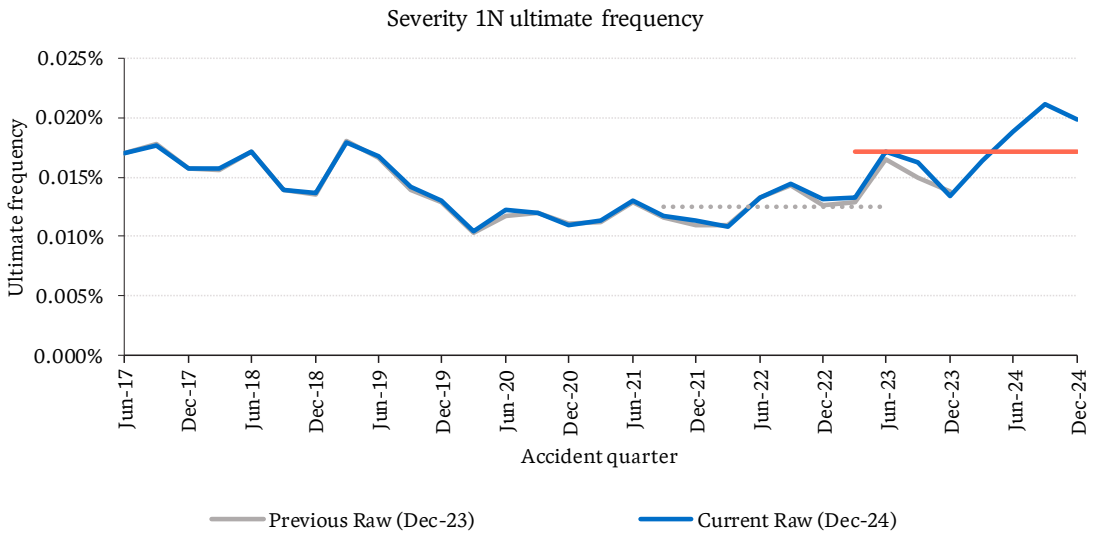
The reduction in core claim frequency is concentrated in lower severities

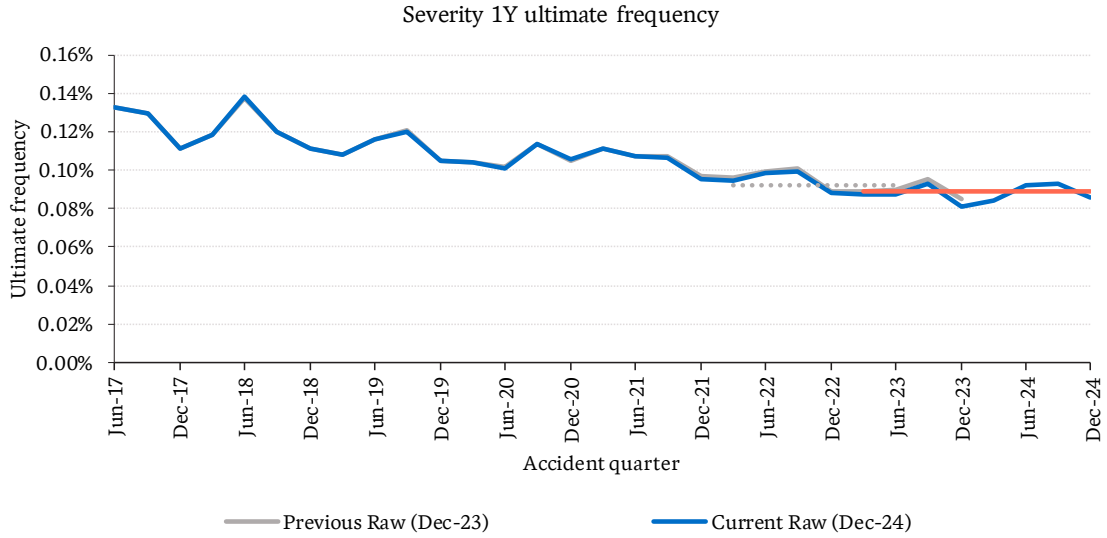
- The chart shows:
  - A decreasing trend in overall frequency over 2017-2024, mirrored in the frequency trend for Severities 1, 2 and 9NA
  - The frequency for Severities 3+ has been generally stable over 2018-2024
- The resultant increasing proportion of Severity 3+ claims translates to a strengthening severity profile
  - The average claim size for high severity claims (Severity 3+) is about four times that of low severity claims
  - The increasing proportion of high severity claims has resulted in a 4% increase in average claim size since 2017



Note: The series plotted reflect 4-quarter moving averages.

An increase in Severity 1N coincides with a decrease in Severity 1Y

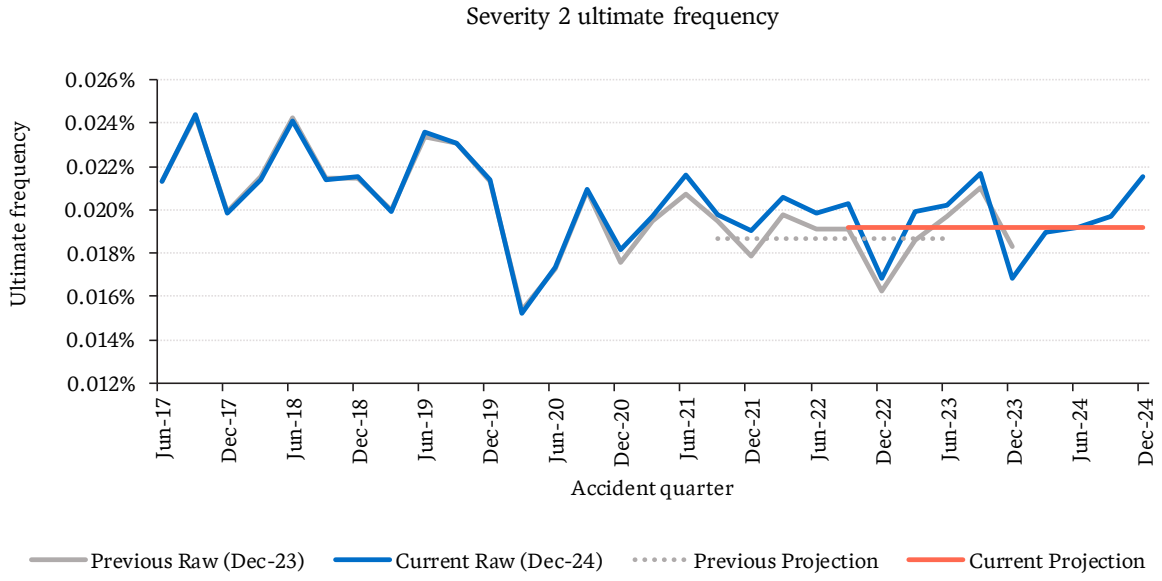




- We observe a continuation in the frequency trends for Severity 1N (increasing) and Severity 1Y (decreasing) that have resulted from insurer direct claims initiatives that support direct claims lodgement
- Consistent with a more responsive approach to setting overall core claim frequency, we have recognised more of the increasing Severity 1N frequency, offset by a reduction in Severity 1Y frequency
  - We have not fully reflected the Severity 1N experience for 2024, in part, due to uncertainties in average claim size for Severity 1N and 1Y resulting from the direct claims initiatives (discussed in Section 3)

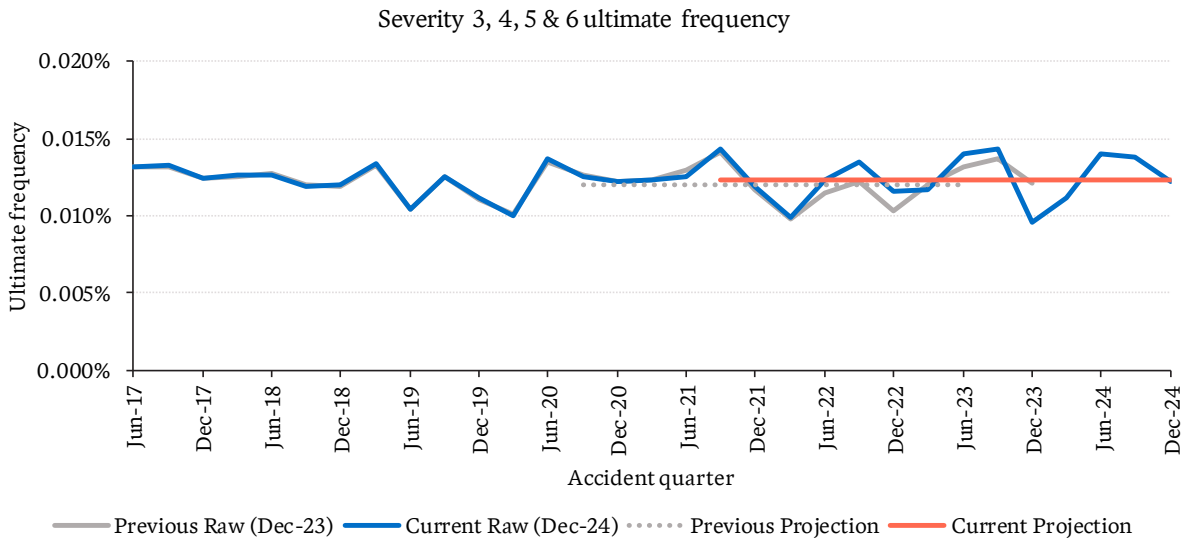
The Severity 2 frequency selection has increased

- Severity 2 claims frequency has historically been volatile
- Experience for Severity 2 claims emerged higher than our expectations for recent quarters
- The Severity 2 frequency selections have increased from our previous selection



Severity 3+ experience is volatile

- There is considerable variability in the frequency for high severity claims
- The selection for Severities 3, 4, 5 and 6 are calibrated to longer averaging periods
- The Severity 3+ selections have increased from our Dec-23 selection



The severity profile has weakened

- The severity profile has weakened, resulting in a net $2.60 decrease to the risk premium since Dec-23
- An increase in Severity 1N has been offset by a decrease in Severity 1Y
- Partially offset by an increase in Severity 2-6 claims

Severity	Estimated ultimate severity profile in future			
	Dec-23 basis	Dec-24 basis	Movement	Impact on risk premium ($)
1N	8.9%	12.0%	3.1%	+0.6
1Y	66.0%	62.8%	-3.2%	-4.6
2	13.4%	13.5%	0.2%	+0.5
3	6.1%	6.2%	0.1%	+0.3
4	0.9%	0.9%	0.0%	-0.1
5	0.4%	0.5%	0.1%	+1.0
6	1.1%	1.1%	0.0%	-0.1
9NA	3.1%	3.0%	-0.2%	-0.0
All	**100%**	**100%**	-	**-2.6**

Key risks – severity profile

Increasing proportion of direct claims

- Insurers' direct claims initiatives have had a large impact on the proportion of direct Severity 1 claims
- A key area of uncertainty is how much cost the direct claims initiative might remove from scheme through reduced legal representation
- The challenge from an assumption setting point of view is that the cost impact on Severity 1Y claims takes some time to emerge
- The impact of this uncertainty and our approach to assumption setting is discussed in Section 3

Frequency of high severity claims is volatile

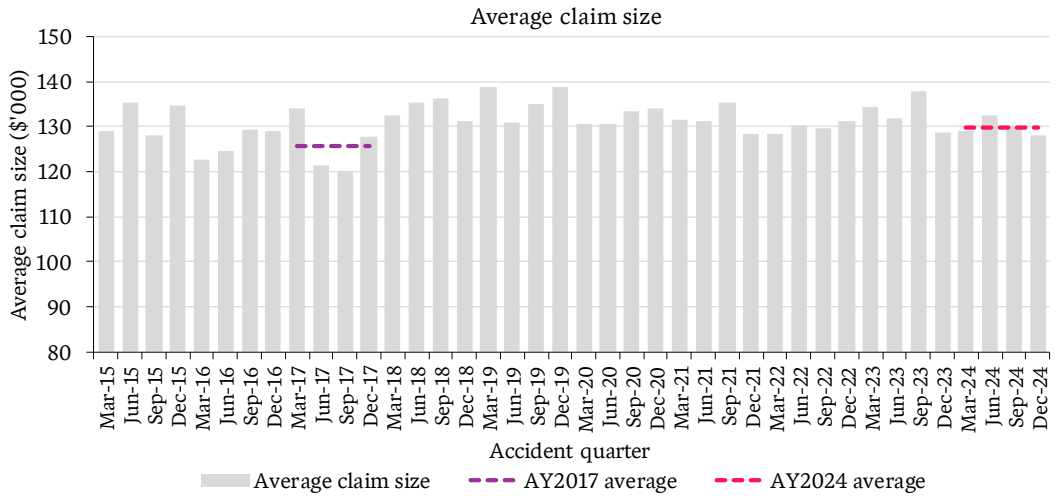
- We observe large quarter to quarter variation in the frequency of Severity 3+ claims
- To smooth through this volatility we adopt a 3-to-4-year average to estimate frequency for high severity claims

4

Claim size

The average claim size has increased over 2017-2024

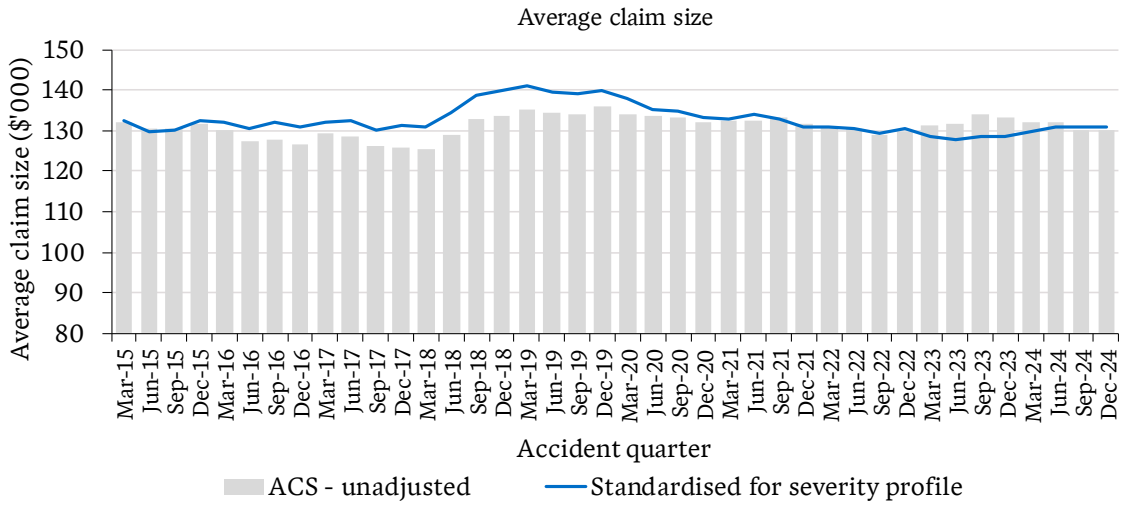
- The average core claim size increased 3% between AY2017 and AY2024
- This increase is due to a strengthening severity profile only



The increase in ACS is almost entirely due to severity profile

Severity profile

- The chart overlays the average core claim size standardised for severity profile
  - The standardised ACS for AY2024 is 0.3% lower than AY2017, indicating that all of the 3% increase in ACS between these years is due to a strengthening of the severity profile

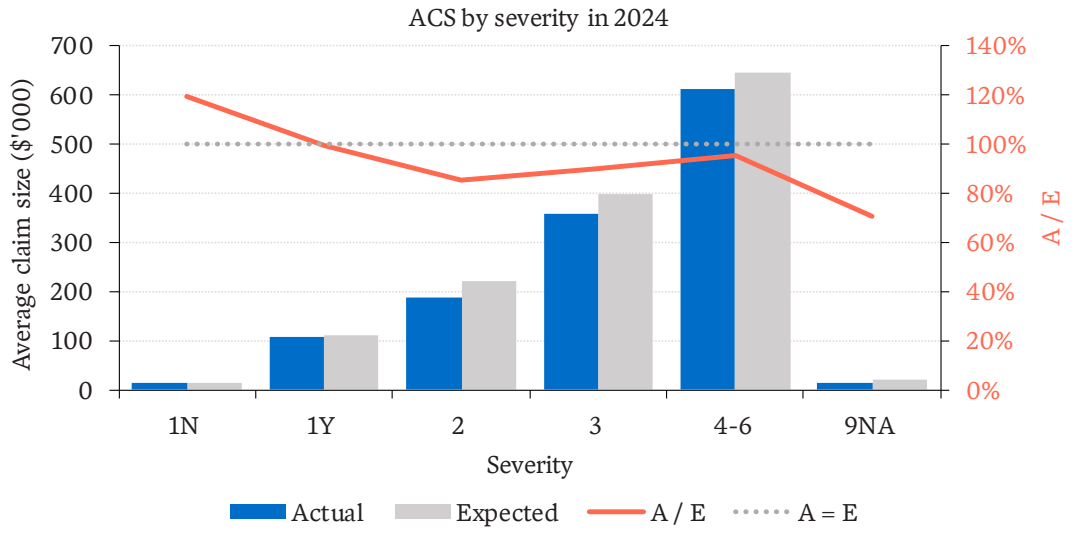


Note: The series plotted reflect 4-quarter moving averages.

Experience over the year

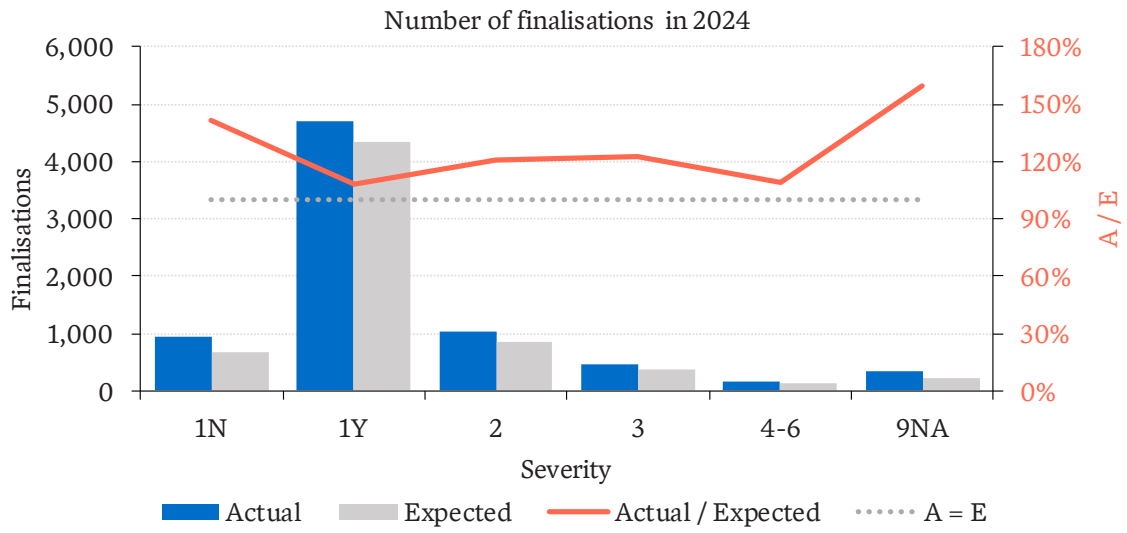
Long-term trends | **Experience** | Key risks

Finalisation cost



- The average claim size in 2024 was 6% lower than forecast at Dec-23
- Experience was favourable across all severities except Severity 1N
- The Severity 1N ACS was 19% higher than Dec-23 forecasts – this is likely driven by insurers' direct claims initiatives

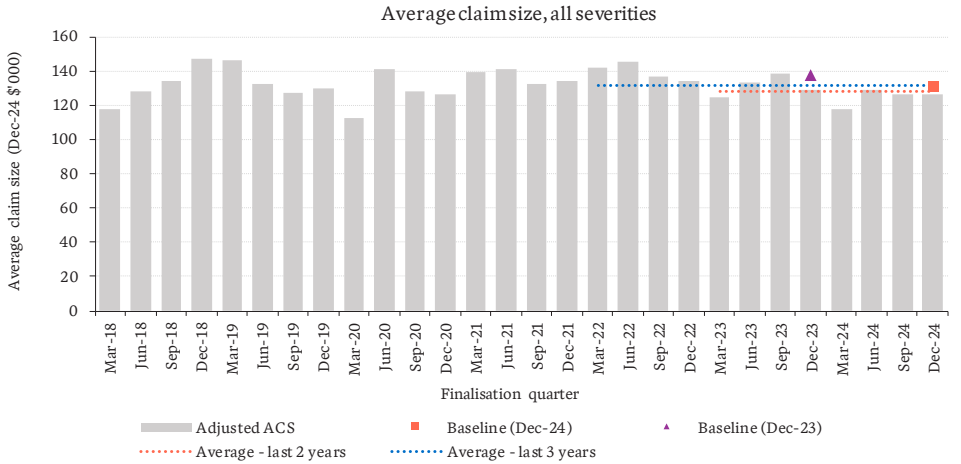
Finalisation speed

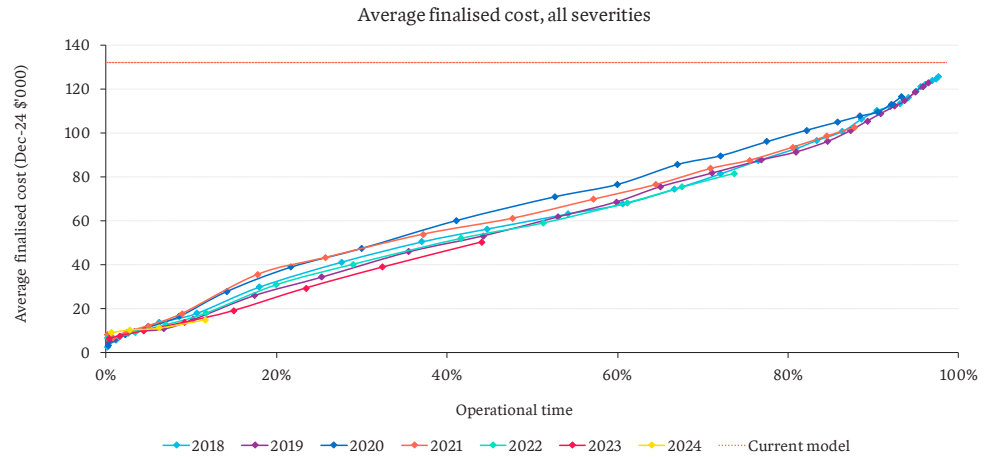


- The actual number of finalisations in 2024 has been 16% higher than projected at Dec-23
- The speed-up in finalisations observed over 2023 has continued through 2024

Core claim size – All severities

- Average claim size assumptions are calibrated to recent Scheme experience
- Our average claim size assumption has decreased 3.8% after standardising for changes in severity profile and is between the average experience of the past 2-3 years
- Our assumptions allow for more average claim size development in accident years 2022 and later than previous years – we have attributed some of the low average claim size development in these later years to an increased focus on finalising less complex claims by one insurer





Note: in this chart we have scaled past cost data for the expected cost differences between accident years so that they can be compared to our current ACS selection

Core claim size has decreased overall

- The core claim size assumption has decreased by 5.1% over the year, due to:
  - A decrease of 1.3% from a weakened severity profile, mainly driven by an increase in the proportion of Severity 1N claims
  - A decrease of 3.8% due to lower average claim size assumptions.
- The 3.8% reduction was the result of lower-than-expected claims experience for all severities over 2024 except for direct Severity 1 claims. The 22% increase in the average claim size assumption for direct Severity 1 claims appears to be the result of the direct claims initiatives introduced by insurers.

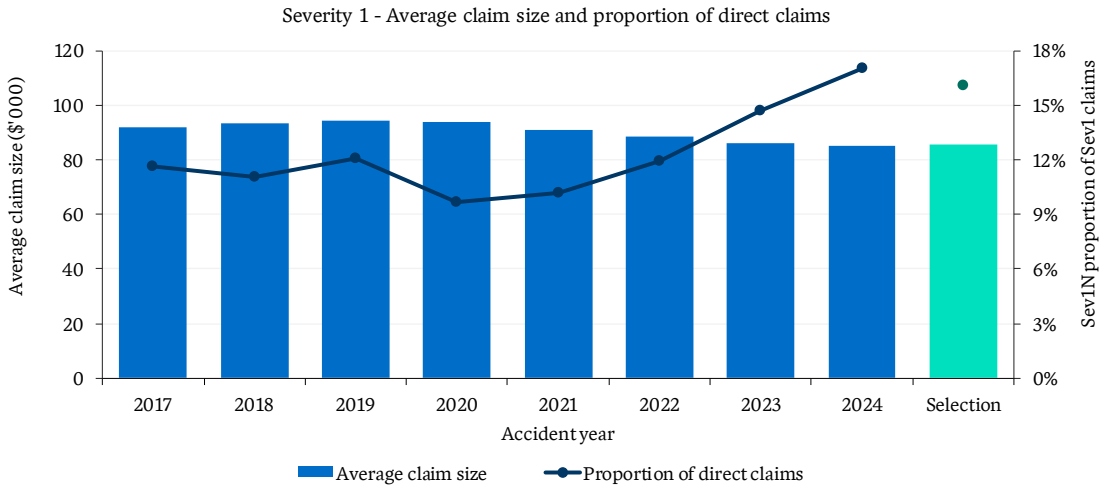
Severity	Estimated average claim size (Dec-24 $000s)			
	Baseline as at Dec-23	Baseline as at Dec-24	Change (%)	Impact on risk premium ($)
1N	12	15	22.0%	+0.47
1Y	103	99	-3.4%	-3.07
2	216	201	-6.9%	-2.85
3	399	385	-3.3%	-1.16
4	736	729	-1.0%	-0.09
5	1,058	1,060	0.1%	+0.01
6	350	314	-10.1%	-0.53
9NA	16	13	-14.8%	-0.10
Total	136	131	-3.8%	-7.33
Change in SP	138		-1.3%	-2.57
Total	**138**	**131**	**-5.1%**	**-9.90**

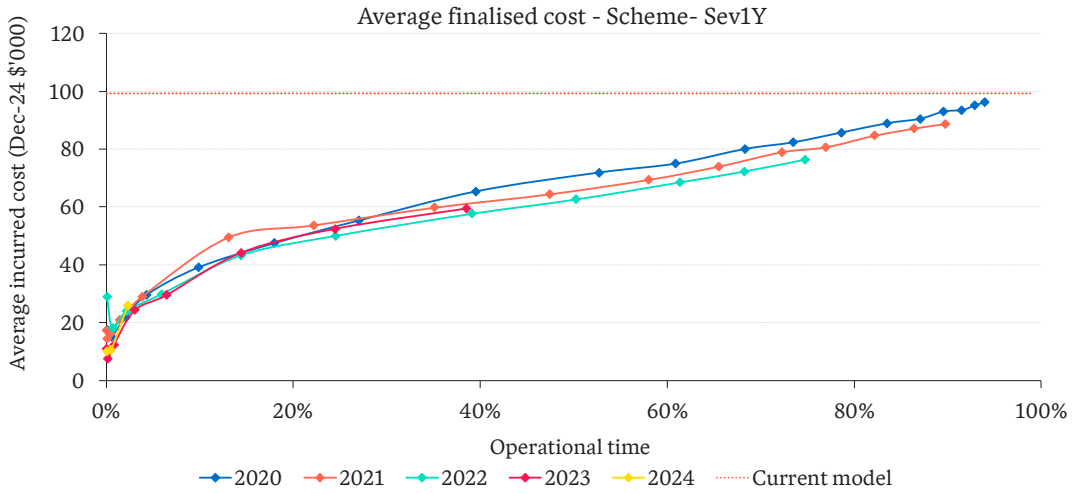
Key risks – Average claim size

Increasing proportion of Severity 1N claims and the impact on Severity 1 ACS

- There is considerable uncertainty in Severity 1 ACS due to expected changes within severity mix for both 1N and 1Y
- We are forecasting a 6% decrease in Severity 1 ACS since AY2021 which is larger than what we might expect from the direct claims initiative alone, due to other contributing trends
- All else equal, the direct claims initiative is expected to increase the average size of both Severity 1N and 1Y claims – the additional direct claims are likely to come from a pool of less severe Severity 1Y claims with a higher claim size than current Severity 1N claims
- This has been observed for Severity 1N claims – we have been more responsive to this high ACS experience
- There is no evidence for an increase in Severity 1Y ACS by accident year potentially due to other favourable trends

- If we assume that the direct initiative saves $25K per claim, then the impact on Severity 1Y ACS is an increase of 4%. Assuming half of this impact is still to emerge – with the other half masked by favourable trends – then the risk premium could increase by $1.80. Alternatively, if we were more responsive to the increasing proportion of direct claims then the risk premium could decrease by $1.40 or more.

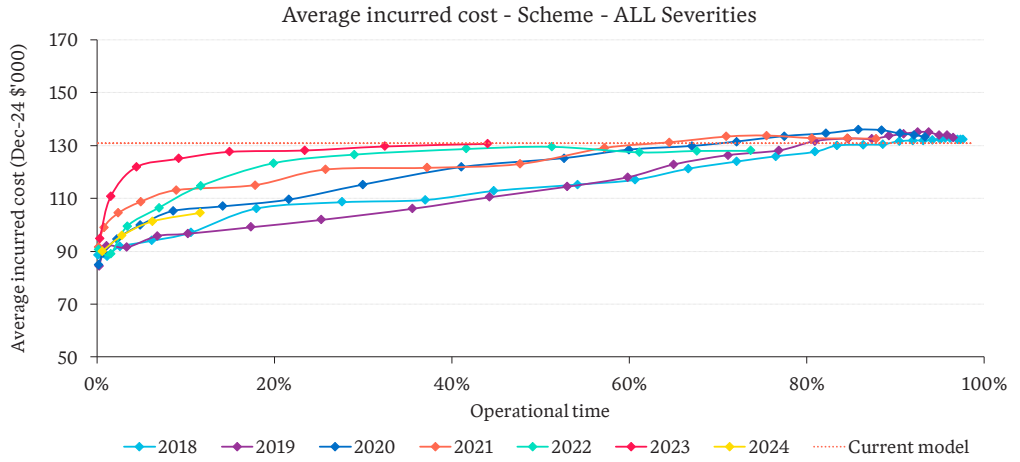




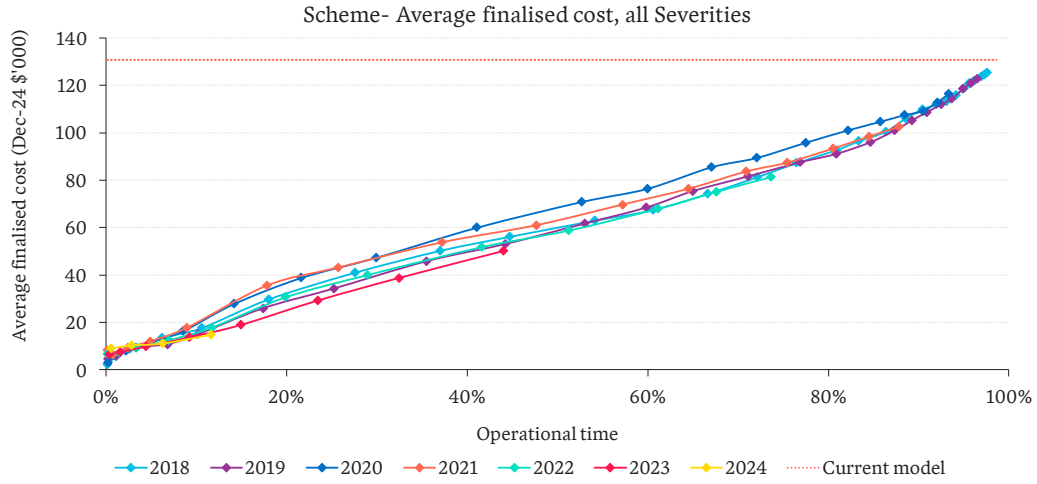
Key risks – Average claim size

Average claim size development

- Our ACS forecasts are reasonably consistent with insurer incurred costs for most recent accident years:
  - Insurer incurred costs for AY2018 – AY2020 are 2-6% higher, however incurred costs have trended downwards for these accident years over the last year
  - AY2024 insurer incurred costs are developing much lower
- Our assumed ACS development for recent accident years is generally consistent with the development of historical years
- The forecast development on AY2022 and later is larger than observed in recent years – we have assumed that some of the favourable experience is due to a re-ordering of claims.
- An alternative scenario where the development of AY 2022 and later is assumed to be lower (calibrated by removing one insurer's unfavourable ACS experience in AY2018-AY2020) would decrease the risk premium by $3.20.



Note: in this chart we have scaled past cost data for the expected cost differences between accident years so that they can be compared to our current ACS selection



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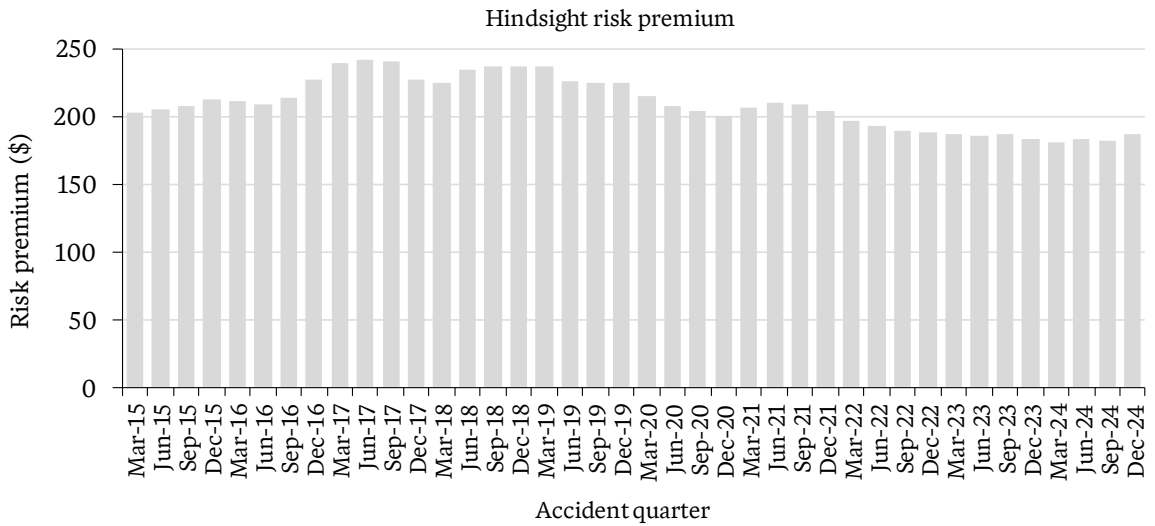
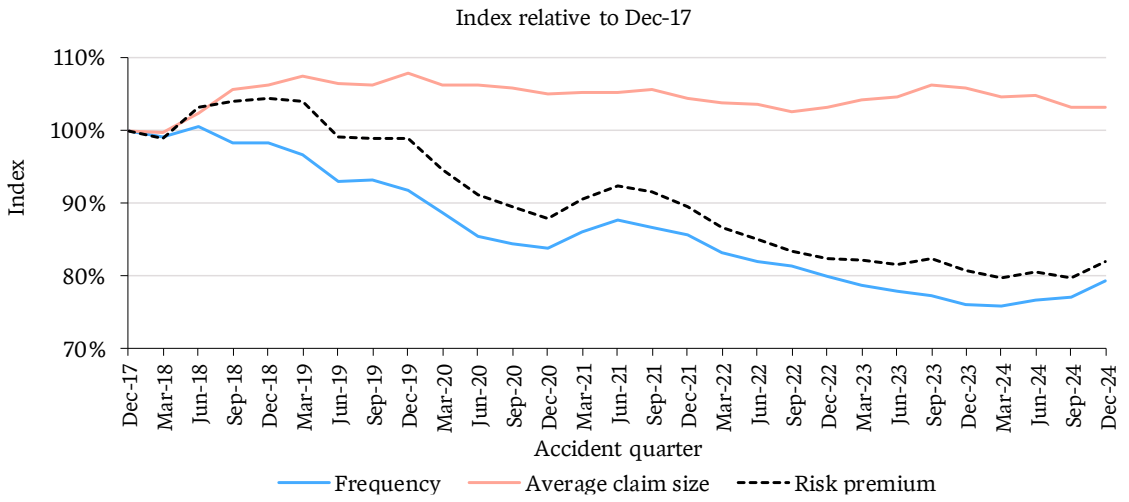
Summary

Core risk premium

- Hindsight risk premium decreased 18% in real terms over 2017-2024
  - Driven by claim frequency (blue line in bottom chart), which decreased 21% over the same period
  - Partially offset by a 3% increase in average claim size (purple line in bottom chart) due to a strengthening severity profile



Note: The hindsight risk premium series reflects a 4-quarter moving average.



Risk premium components

Risk premium components	Claim frequency %	Average claim size $	Risk premium $
Core claims	**0.1420%**	**130,912**	**185.90**
NSW accident postcode claims	0.0056%	163,666	9.16
Interstate sharing claims	0.0012%	68,982	0.83
Workers' compensation recovery claims	0.0155%	9,520	1.48
Estimated risk premium at 31 Dec 2024	**0.1643%**	**120,122**	**$197.36**

$6.99 increase from Dec-23 estimate

A

Appendix

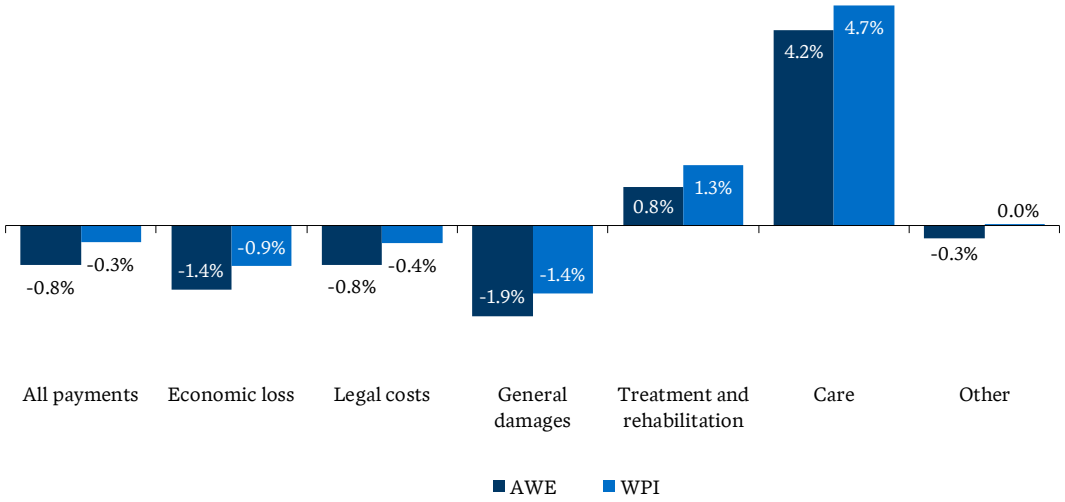
A1

Economic parameters

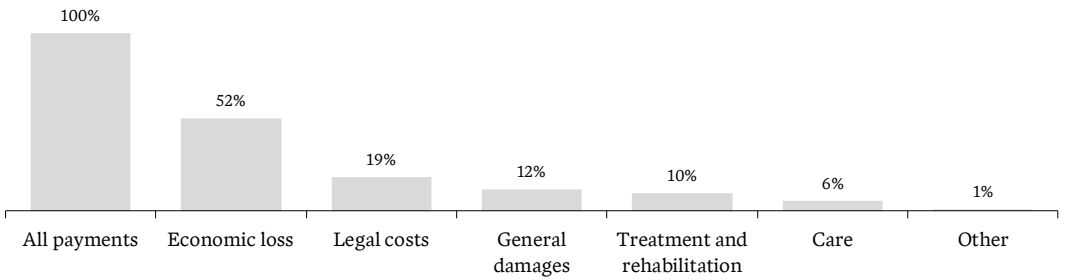
Inflation indices – AWE v WPI

- In our view, AWE remains an appropriate inflation index
  - AWE has captured a greater proportion of historical inflation than WPI, resulting in lower superimposed inflation (SI) estimates
  - AWE captures compositional trends in the workforce
  - Volatility under the AWE may be reduced by adoption of a longer moving average to smooth the series – we have increased our smoothing period for this review.
- Estimates of SI vary by Head of Damage for both AWE and WPI
  - Negative SI for major HoDs – economic loss, legal and general damages
  - Positive SI for minor HoDs – treatment and rehab, and care

10-year superimposed inflation by head of damage

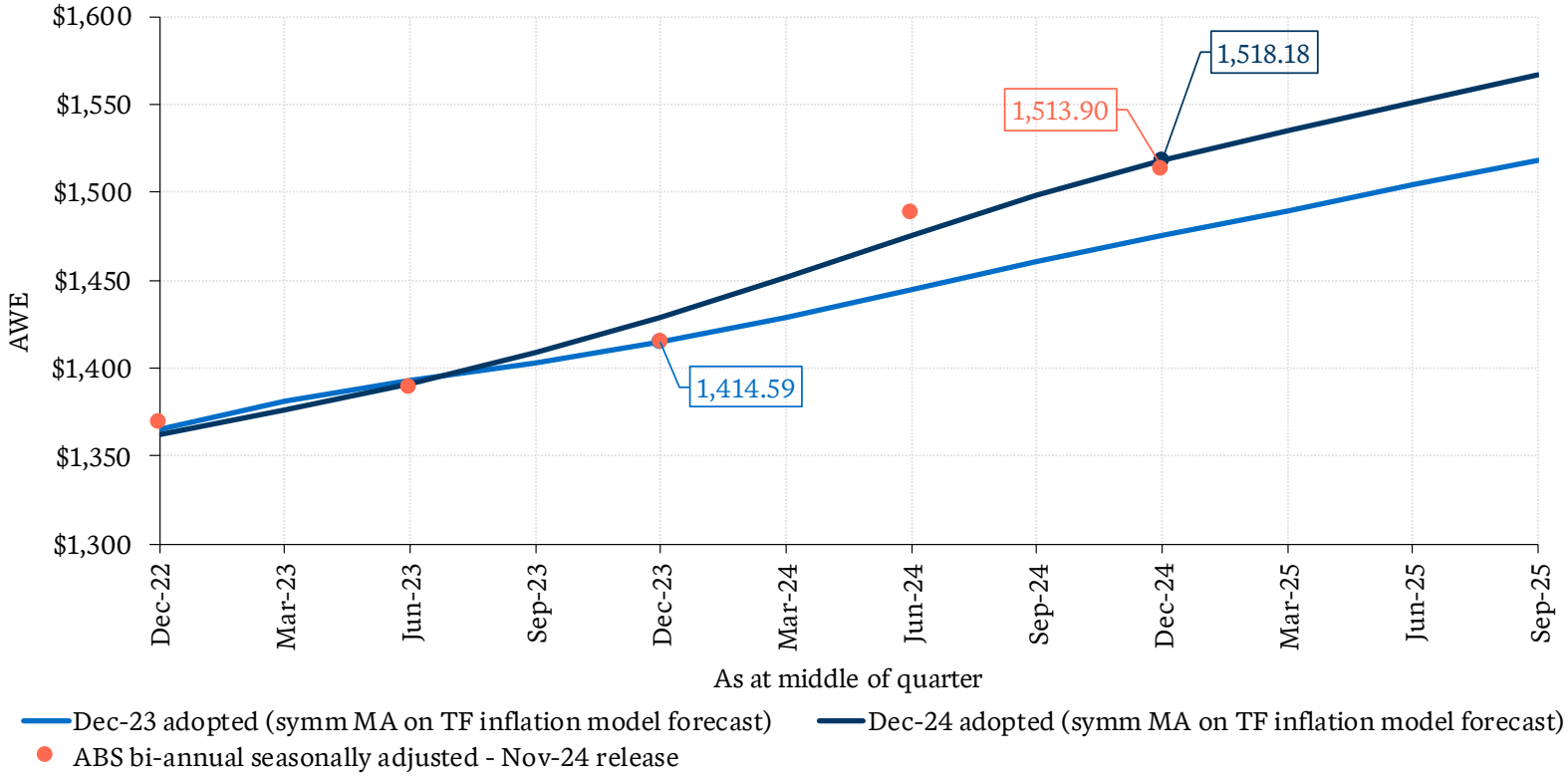


Share of claim payments over past 10 years

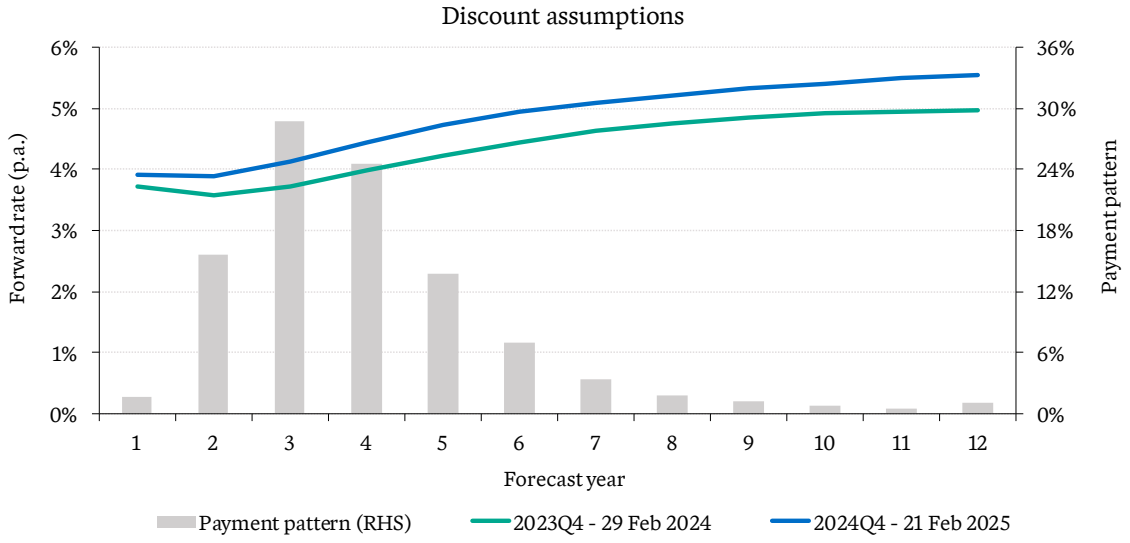


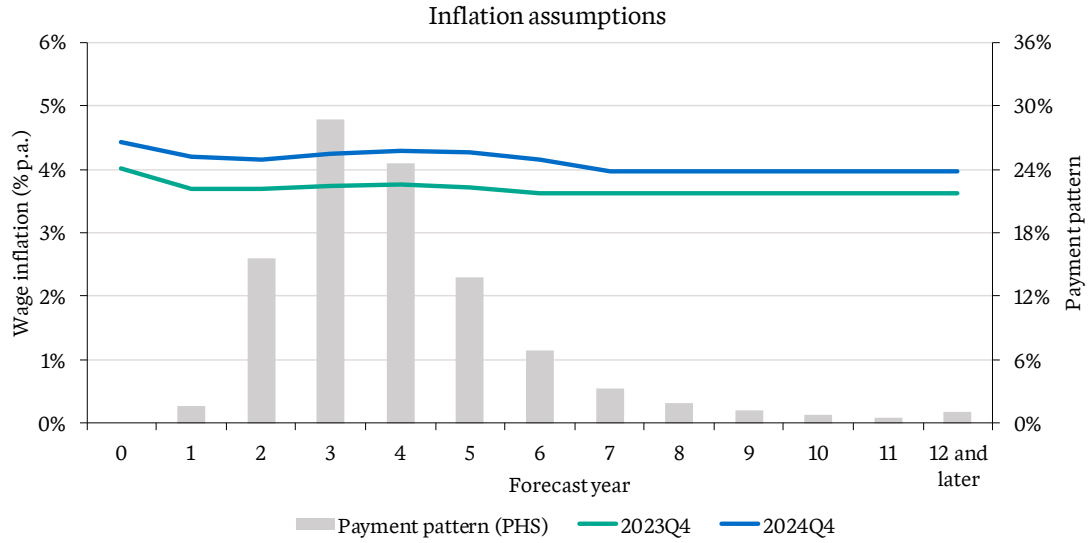
Wage inflation to 31 December 2024

- We have applied the future inflation rates forecast by the TF inflation model to the AWE result released by the ABS in Feb-25
- The ABS release results in an AWE increase of 7.39% from the 31 December 2023 to 31 December 2024



Discount rates and future wage inflation





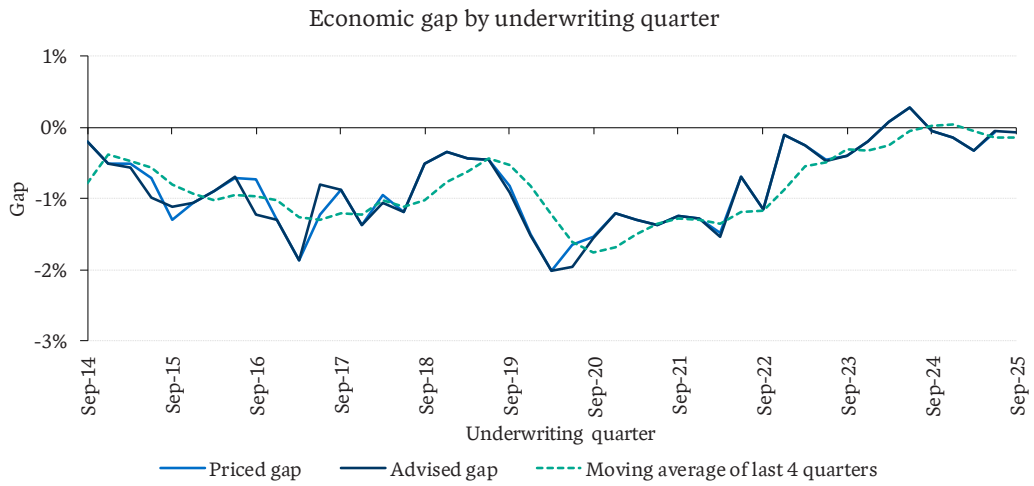
- Discount rates have been updated as at 29 February 2024
- Discount rate projections have increased in line with increases in yields on nominal bonds

- Inflation projections are higher than projected at Dec-23
- Increases are in line with the increase observed in yield on nominal and inflation-linked bonds

Economic gap

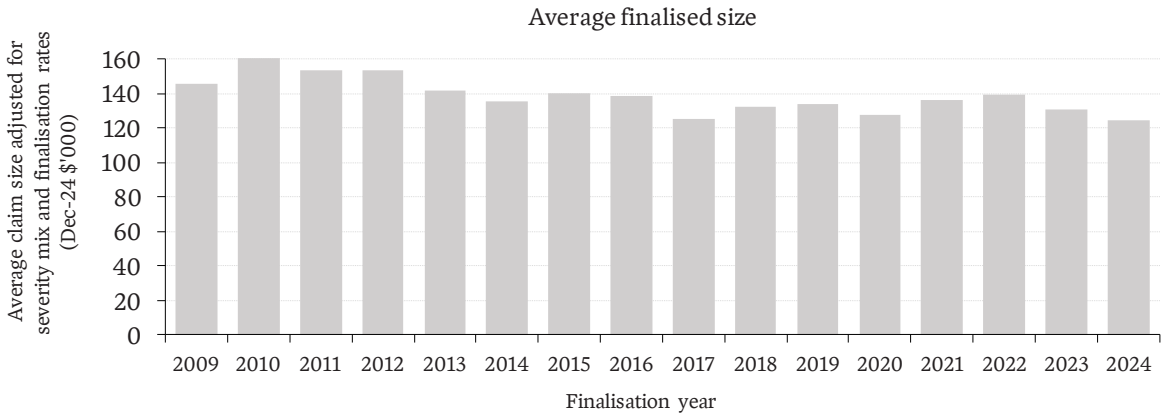
- The gap has decreased slightly from -0.04% at Dec-23 to -0.06% at this review

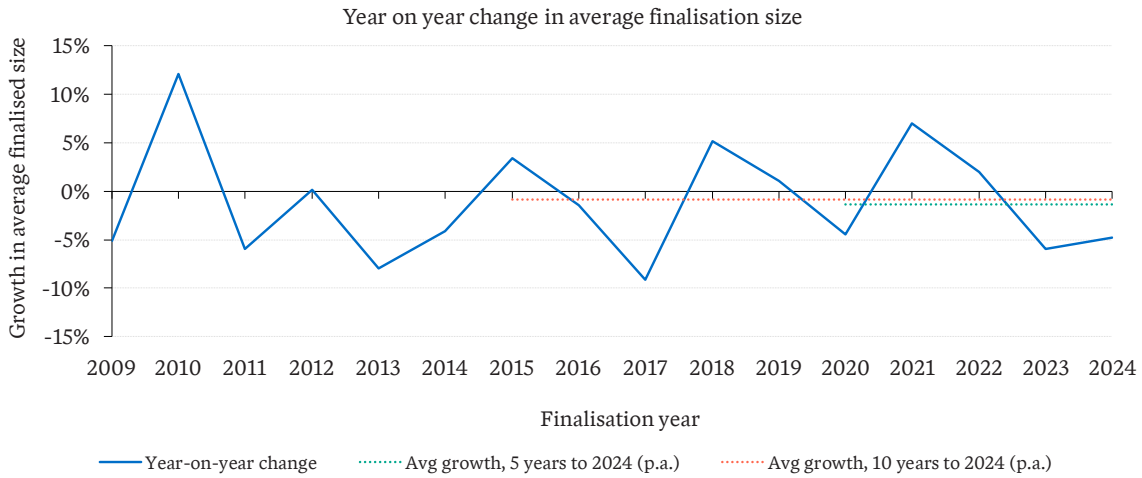
	Economic assumption (%p.a.)		
Review	**Discount rate**	**Wage inflation**	**Economic gap**
Current	4.16%	4.23%	-0.06%
Last quarter	4.05%	4.11%	-0.06%
Last annual review	3.83%	3.87%	-0.04%
Change since:			
Last quarter	0.11%	0.12%	**-0.01%**
Last annual review	0.34%	0.35%	**-0.02%**



Superimposed inflation

- When estimating superimposed inflation, we standardise the average claim size for modelled factors
  - The top chart shows ACS after controlling for severity profile and claims processing speed (operational time)
  - The bottom chart shows the year-on-year growth in standardised ACS
- Over the 10-year period to 2024 the average claim size – standardised for severity mix and operational time – has reduced, implying overall negative superimposed inflation over this period (-0.8% p.a.)
  - Similarly, over the 5-year period to 2024 superimposed inflation remains negative (-1.3% p.a.)





A2

Risk premium uncertainties

Key uncertainties associated with the risk premium estimate

Risk premium scenarios	Impact on estimated risk premium		
Business as usual variation			
Estimated risk premium - 50% confidence interval	+$14.8	/	-$14.8
Key uncertainties			
Frequency/SP scenarios			
Frequency in line with experience over the accident year Dec-23 to Sep-24			-$2.6
Frequency in line with experience over the accident year Mar-24 to Dec-24			+$2.6
Severity 3+ frequency develops in line with average experience for AY2018-AY2020			-$1.1
Severity 3+ frequency develops in line with average experience for AY2023-AY2024			+$0.7
Severity 1N proportion of Severity 1 calibrated to a one-year average			-$1.4
Average claim size scenarios			
Direct claims initiative saves $25k per Severity 1Y claim, with half the impact on Severity 1Y ACS yet to emerge (ACS of Severity 1Y claims emerges high)			+$1.8
Severity 1Y ACS emerges in line with the finalisation experience over the last 3 years			+$1.0
Severity 2 ACS emerges in line with the finalisation experience over the last 2 years			-$1.3
ACS calibrated by excluding one insurer's high AY2018-AY2020 experience			-$3.2
ACS calibrated by excluding one insurer's low AY2021-AY2024 experience			+$1.8

**Business as usual variation* represents the historical level of uncertainty in risk premium estimates. The *key uncertainties* show how the risk premium estimate would change if we made alternative assumptions. The estimated risk premium impacts across *business as usual* and *key uncertainty scenarios* are not additive.

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