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Queensland CTP Market Briefing

Review of the risk premium for the 2025Q3 underwriting quarter

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In this briefing

About the market briefing

Each quarter, Taylor Fry provides advice to MAIC to assist in its role of setting a pricing band for the Queensland CTP Scheme. This market briefing is intended to summarise Taylor Fry's latest advice to MAIC.

We suggest that the first-time reader reviews *Section 6 - Structure of Taylor Fry's advice to MAIC* before the remainder of this briefing to understand Taylor Fry's role and the structure of our advice.

Stakeholder submissions

We received six stakeholder submissions which has been considered in the preparation of this report.

Reliance and limitations

This briefing is prepared for MAIC. MAIC alone is permitted to distribute this briefing to other parties. We note our duty of care does not extend to any third party who receives this report (or accompanying material) and we do not accept any liability for any actions resulting from relying on any information contained within the report (or accompanying material).

1 Risk premium

This section provides an overview of the risk premium at Dec-24, changes since the last review and uncertainty in the risk premium estimate.

Our estimate of the risk premium at Dec-24 is **$197.36**. This estimate is a combination of the risk premium relating to core claims, workers compensation, interstate sharing and NSW postcode claims.

Table 1 shows the components of the risk premium estimate.

Table 1 - Estimated risk premium at Dec-24

Component	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 Dec-24	**0.1643%**	**120,122**	**$197.36**

1.1 Change since last review

The estimated risk premium at Dec-24 of **$197.36** is **$4.10 higher** than our estimate at the previous review. This estimate is in Dec-24 dollars before the application of inflation and discounting.

Figure 1 shows the contributors to the change in estimated risk premium since Sep-24.

Figure 1 – Change in estimated risk premium since the Sep-24 review

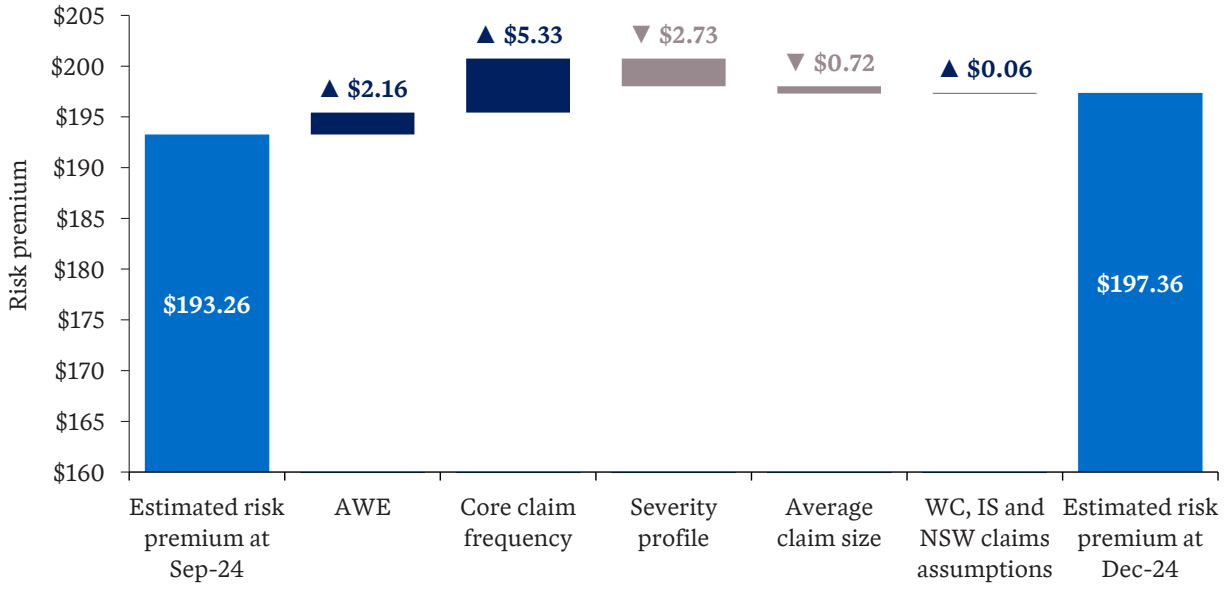


Figure 1 shows:

- An **increase in Average Weekly Earnings (AWE) over the quarter**, resulting in an increase in the risk premium of $2.16
- An increase of $5.33 due to an **increase in the core claim frequency**
- A decrease of $3.45 due to a **decrease in the average claim size**, which is the combined effect of:
  - A decrease of $2.73 due to a **weakening of the severity profile**, driven by an increase in the proportion of Severity 1N claims, offset by a decrease in the proportion of higher severity claims
  - A decrease of $0.72 mainly due to a **decrease in the core claim size assumptions**
- An increase of $0.06 due to changes to **assumptions for non-core claims**, with strengthened assumptions for workers compensation claims mostly offset by lower average claim size selections for NSW-postcode and interstate sharing claims.

1.2 Risk premium uncertainty

Our risk premium estimate for the 2025Q3 underwriting quarter is highly uncertain. As an illustration of this uncertainty:

- There is approximately one in four chance that the actual risk premium will be *more* than 7.5% higher than our risk premium estimate.
- There is approximately one in four chance that the actual risk premium will be *less* than 7.5% lower than our risk premium estimate.

Section 5 discusses risk premium uncertainty in more detail.

2 Frequency

We review the core claim frequency selection quarterly.

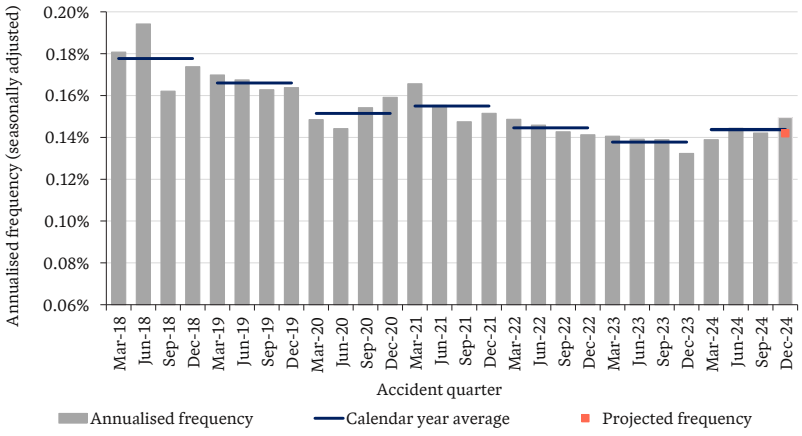
This section outlines the assumptions for core claim frequency.

Notifications over the quarter were 10% higher than forecast at Sep-24, mainly driven by experience for the Sep-24 and Dec-24 accident quarters.

The notification pattern and seasonality adjustment for core claim frequency have been revised at this annual review.

Figure 2 shows the projected ultimate annualised frequency for each historical accident quarter after allowing for seasonality and removing the estimated impact of COVID-19 and the Mar-22 Eastern Australian floods.

Figure 2 – Estimated annualised core claim frequency at Dec-24



The core claim frequency decreased from Mar-21 to Mar-23, coinciding with lower traffic volumes. Other factors such as road safety measures and continued enforcement of the claims farming reforms may also have contributed to the observed reduction in frequency.

The frequency increased in Dec-24, despite traffic volumes remaining low.

To give more weight to the recent increase in frequency, the advised frequency assumption at Dec-24 has been selected as the average of:

- The 4-quarter average over Dec-23 to Sep-24 (i.e. *excluding* the latest accident quarter), and
- The 4-quarter average over Mar-24 to Dec-24 (i.e. *including* the latest accident quarter).

The projected frequency of **0.1420%** represents a 3% increase since the Sep-24 review, reflecting partial weight given to the latest Dec-24 accident quarter.

3 Severity profile

We review the severity profile selection quarterly.

This section outlines the assumptions for core claim severity profile.

Legally represented Severity 1 claims (Severity 1Y) represent around 63% of core claim notifications and around 48% of the core risk premium. While there are relatively few high severity claims, they typically have higher average claim sizes.

Table 2 shows our current and previous severity profile assumptions.

Table 2 – Severity profile at Dec-24 and change from the previous quarter

Severity	Previous review Sep-24	Current review Dec-24	Movement
1N	10.4%	12.0%	+1.7%
1Y	64.1%	62.8%	-1.3%
2	13.8%	13.5%	-0.3%
3	6.3%	6.2%	-0.1%
4	0.9%	0.9%	0.0%
5	0.4%	0.5%	+0.1%
6	1.2%	1.1%	-0.1%
9NA	2.9%	3.0%	+0.1%
All	100%	100%	

The severity profile has **weakened** at this review.

An increase in the proportion of Severity 1N claims is offset by a decrease in the proportion of higher severity claims, resulting in a net **$2.73 decrease** in risk premium.

4 Average claim size

We review the average claim size by severity quarterly. The average finalised claim sizes used for modelling are on a net of NIISQ basis.

This section outlines the assumptions for core claim average claim size.

Table 3 shows our current and previous core average claim size assumptions.

Table 3 – Core average claim size at Dec-24 and change from the previous quarter (adjusted for inflation), excluding changes in severity profile

Severity	Previous review Sep-24 $'000	Current review Dec-24 $'000	Movement
1N	13	15	+17.0%
1Y	100	99	-0.9%
2	202	201	-0.4%
3	383	385	+0.6%
4	734	729	-0.7%
5	1,060	1,060	0.0%
6	332	314	-5.3%
9NA	13	13	-0.6%
Total	**131**	**131**	**-0.4%**

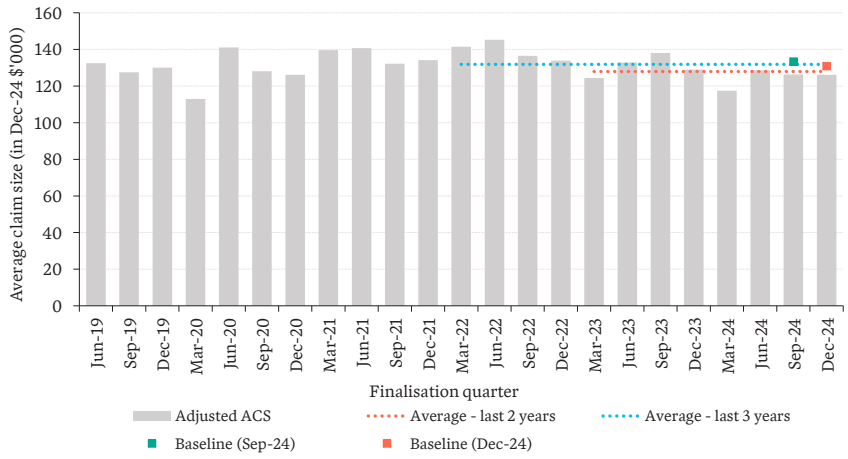
The core claim size assumption has **decreased by 0.4%** since Sep-24, excluding changes in severity profile.

This slight reduction is driven by severities 1Y, 2 and 6.

Over the last year, lower than forecast average claim size experience has resulted in a 3.8% reduction in the average claim size assumption before the impact of severity profile changes. This lower than forecast experience has been observed across all severities except for direct Severity 1 claims which saw a 22% increase in the average claim size assumption over the year. The increase in size for direct Severity 1 claims appears to be the result of direct claims initiatives introduced by insurers.

Figure 3 shows the historical finalised claim sizes by finalisation quarter, standardised for severity profile and changes in the rate of finalisations across accident periods.

Figure 3 – Average claim size by finalisation quarter (all severities, adjusted for inflation)

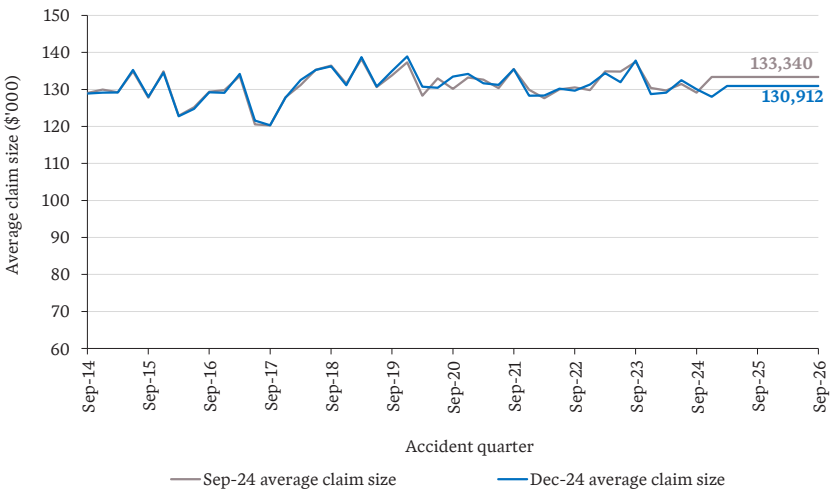


The core average claim size assumed at Dec-24 is **1.8% lower** than our previous estimate, which is the combined effect of a **weakened severity profile** and a small **reduction in average claim size assumptions**.

Our current average claim size assumption is between the average experience of the past 2-3 years.

Figure 4 shows the estimates ultimate average claim sizes by accident quarter.

Figure 4 – Projected core average claim size by accident quarter (all severities, adjusted for inflation)



Our projected core average claim size has **decreased** from the previous review.

The current estimate is **$130,912**.

5 Risk premium uncertainty

There is considerable uncertainty in the assumptions underlying our risk premium estimate. We provide risk premium impacts for a range of plausible alternative scenarios.

5.1 Business as usual variation

Our risk premium estimate is highly uncertain. The movement of the risk premium from quarter to quarter is the main source of uncertainty in our risk premium estimate, referred to as *risk premium evolution error*.

The average claim for underwriting quarter 2025Q3 will finalise around **four years later** than the most recent finalised claim data available to estimate risk premium. Historically there have been large movements in the risk premium over a four-year period. In general, these movements are not predictable in advance.

We have quantified this risk premium evolution error to give the scheme's "business as usual variation". We have found that there is approximately **50% chance** that the actual risk premium will fall within the range of:

- Estimated risk premium +/-7.5%, or equivalently,
- Estimated risk premium +/-$15.

5.2 Key uncertainties

In addition, we have identified several key uncertainties that could impact the risk premium. These are summarised in Table 4 and described below.

Table 4 – Change in estimated risk premium for plausible alternative scenarios

Risk premium scenarios	Impact on estimated risk premium
Business as usual variation	
Estimated risk premium – 50% confidence interval	**+$14.8 / -$14.8**
Frequency / severity profile 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 claims is calibrated to a one-year average	**-$1.4**
Average claim size (ACS) 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**

5.2.1 Uncertainty in the frequency of core claims

There was a drop in claim frequency at the beginning of 2020 due to COVID-19 related lockdowns and the introduction of the claims farming legislation. Following the lifting of the lockdowns, frequency partially rebounded, followed by a decrease over 2022 and 2023 associated with lower traffic volumes.

The core claim frequency increased in Dec-24, despite traffic volume remaining low.

Our latest frequency assumption is selected as the average of:

- The 4-quarter average over Dec-23 to Sep-24 (i.e. *excluding* the latest accident quarter), and
- The 4-quarter average over Mar-24 to Dec-24 (i.e. *including* the latest accident quarter).

This approach gives partial weight to the higher frequency estimate of the latest Dec-24 accident quarter.

If claim frequency were to emerge in line with the average experience over the Dec-23 to Sep-24 accident quarters, the risk premium would decrease by $2.60.

If claim frequency were to emerge in line with the average experience over the Mar-24 to Dec-24 accident quarters, the risk premium would increase by $2.60.

5.2.2 Uncertainty in the frequency of high severity claims

The frequency for high severity claims (3, 4, 5 and 6) has been volatile over time. Our selected frequency is based on the projected ultimate frequency for the three to four most recent accident years.

If the frequency for 2025Q3 is assumed to emerge similarly to the average projected for AY2018-AY2020 then the risk premium estimate would decrease by $1.10.

If the frequency for 2025Q3 is assumed to emerge similarly to the average projected for AY2023-AY2024 then the risk premium estimate would increase by $0.70.

5.2.3 Uncertainty in Severity 1 claims

The proportion of direct Severity 1 claims (Severity 1N) has increased materially since Jun-22, likely driven by an increased focus on direct claims by insurers.

There is considerable uncertainty in the Severity 1 (1N and 1Y combined) average claim size due to the expected changes to severity mix within both Severity 1N and Severity 1Y.

Recognising this uncertainty, we have not given full weight to the 2024 experience when selecting the proportion of direct Severity 1 claims. If the selected Severity 1N proportion was calibrated to a one-year average, the risk premium would decrease by $1.40.

We expect the average claim size to increase for both Severity 1N and Severity 1Y as a result of the shift between these severities, with less severe Severity 1Y claims expected to be lodged directly. We have observed an increase in Severity 1N average claim size, however Severity 1Y experience continues to develop favourably. As an illustrative example, if we assume the direct initiative of insurers saves $25K per claim, with half the upward impact on Severity 1Y average claim size yet to emerge, the risk premium would increase by $1.80.

5.2.4 Uncertainty in the average claim size of Severity 1Y and 2 claims

Severity 1Y average claim sizes stepped up during the Mar-21 to Jun-22 finalisation quarters, then stepped down again from Sep-22 onwards. Our projection at Dec-24 is based on a mix of a 2-year average for low to mid operational times and a 3-year average for high operational time claims, unchanged from the previous review.

If we were to calibrate the Severity 1Y ACS to a 3-year average throughout, giving more weight to the higher experience over Mar-22 and Jun-22, the risk premium would increase by $1.00.

The Severity 2 average claim size stepped up for finalisations over 2021-2023, before decreasing at Mar-24. Our projection at Dec-24 is based on a mix of a 2-year average for low-mid operational times and a 3-year average for high operational time claims.

If we were to calibrate the Severity 2 ACS to a 2-year average throughout, which puts more weight on the lower 2024 experience, the risk premium would decrease by $1.30.

5.2.5 Uncertainty in the core average claim size

Average claim size experience for one insurer has been more variable than typical over the last several accident years. For AY2018 to AY2020, experience for this insurer is emerging above the rest of industry, while for AY2021 to AY2024 experience is emerging below their prior accident years and the rest of industry.

Discussions with the insurer have indicated that the lower experience in AY2021 to AY2024 results from focussing on less complex claims with smaller average claim sizes. They expect that the average claim sizes for these accident years will increase as they finalise the more complex claims. We continue to accept this explanation and our approach to model calibration – which includes all Scheme data – allows for this.

However:

- If the average claim size was calibrated to experience that excluded this insurer's high AY2018 to AY2020 experience, the risk premium would decrease by $3.20.
- If the average claim size was calibrated to experience that excluded this insurer's low AY2021 to AY2024 experience, the risk premium would increase by $1.80.

6 Structure of Taylor Fry's advice to MAIC

This section describes the components of our advice to MAIC as well as the role of this advice in MAIC's premium setting process.

The **prescribed floor and ceiling premiums** for each underwriting quarter are calculated and set by **MAIC**, based on several inputs, including estimates of the average **risk premium** for the scheme**.** Taylor Fry estimates the components of the risk premium for the Queensland CTP scheme for each underwriting quarter and advises MAIC on these components.

In estimating the risk premium for each underwriting quarter, we consider **"core"** claims separately from workers' compensation recovery (WC), interstate sharing (IS) and NSW accident postcode (NSW) claims. Each component is separated into the **frequency** of claims per registered vehicle and **average claim size**. These components make up the baseline risk premium.

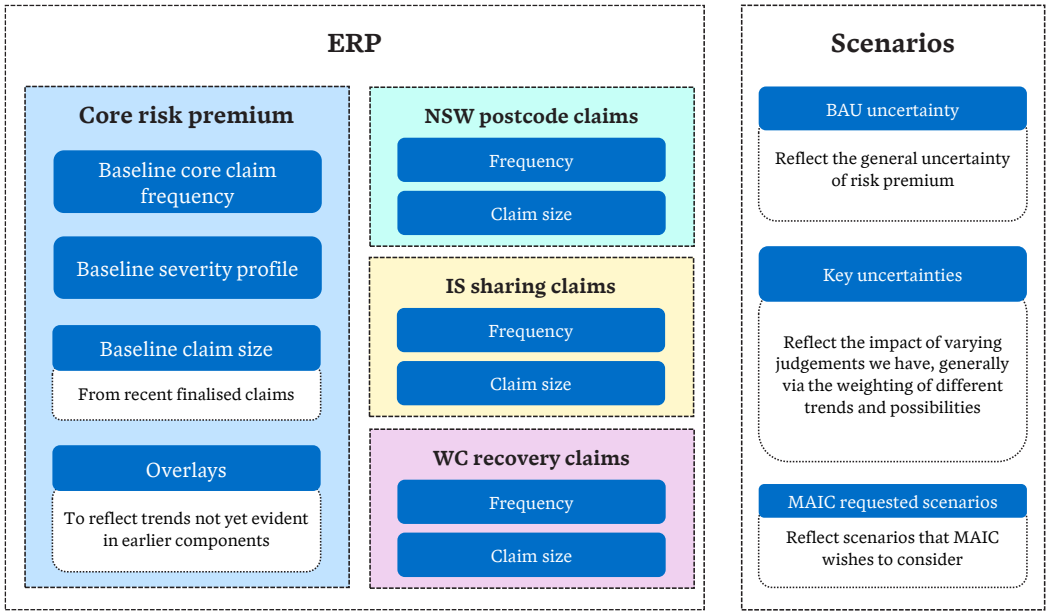
Our Estimated Risk Premium (ERP) for a given future underwriting quarter is comprised of our **baseline risk premium estimate** and **overlays**. The ERP reflects **risk premium** implied by **the most recent past accident periods**, adjusted for the impact of changes which meet the following criteria:

- Evidence of the change can be seen in the data
- The change is quantifiable with reasonable certainty
- We are reasonably confident that the change will continue into the future up until the time most of the cost of claims for the underwriting quarter has been paid.

The risk premium of recent accident years is captured in the baseline risk premium estimate and the other adjustments are made through the overlay component when needed.

There is a large degree of **uncertainty** and **reliance on judgment** apparent in the overlays as they reflect our view of changes to the scheme experience occurring in either the very recent past or the future; the prescribed premiums are set for an accident period approximately one year in the future with claims settling on average 3 years after that.

In addition to the ERP, we provide MAIC with a series of scenarios focusing on key uncertainties in the ERP which reflect potential alternative scenarios relating to possible changes to underlying components of risk premium. Our ERP and scenarios are inputs for MAIC to utilise in their pricing process. We do not expect that MAIC will necessarily adopt our ERP or a risk premium that is within the range covered by our scenarios.



We consider it proper for MAIC to adopt a risk premium different to our ERP based on:

- Adopting a combination of provided scenarios which they consider to be the most likely to occur
- Their anticipation of future changes to the risk premium which we have not allowed for in our ERP or scenarios.

Appendix A

A.1 Key definitions

Table A.1 – Key definitions

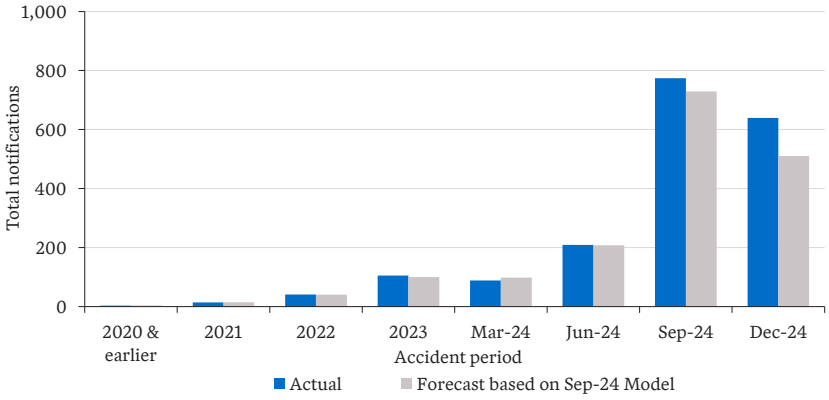
Claim	All claims recorded as notified in the Scheme data, other than Nominal Defendant claims, but specifically including those for nil or trivial amounts.
Claim severity	Claim severity refers to our severity band under which a claim falls under, which is a categorisation based on the maximum injury severity score of the claim and the status of the claim's legal representation.
Core claims	Claims excluding those categorised as workers' compensation recovery, interstate sharing claims or NSW accident postcode claims.
Operational time	The rank order of claims finalised from an accident quarter. For example, the first claims finalised have operational times near 0% and the last claims finalised have operational times near 100%.
Interstate sharing claims (IS) claims	Interstate sharing (IS) claims involve one party from Queensland and another from a different state. In some of these cases the claim cost is shared between schemes. These claims are managed by an interstate insurer. They are identified in the database by means of a specific injury code. Claims with a NSW accident postcode are excluded.
Workers' compensation recovery (WC) claims	Workers' compensation recovery (WC) claims are those notified to insurers by a workers' compensation insurer/authority. They have been identified separately in the database since 2009Q1 by means of a specific injury code. Claims with a NSW postcode are excluded.
NSW accident postcode claims	Claims with a NSW accident postcode, including those categorised as core, workers' compensation recovery and interstate sharing claims. They are identified in the database by means of accident postcodes.
Claim frequency	Number of claims per registered vehicle.
Severity profile	The severity profile refers to the final proportion of claims related to each claim severity.
Risk Premium (RP)	Risk premium refers to the average premium required to cover claim costs which is calculated as the total ultimate claim costs of a period divided by the number of registered vehicles. This is equivalent to claim frequency multiplied by average claim size for each severity, summed across all claim severities.
Estimated risk premium (ERP)	The ERP refers to our estimate of risk premium that reflects claims costs for the most recent past accident periods, to the extent we can reliably measure them, adjusted for the impact of changes we are reasonably confident will occur up until the time most of the cost of claims for the underwriting quarter has been paid.
Claim farming reforms	On 5 December 2019, new legislation commenced which aims to stop the practice of insurance car crash scamming (commonly known in the industry as 'claim farming'). Car crash scammers contact unsuspecting people and pressure them (or their family members) to make a CTP insurance claim or share their personal information to law firms for a profit. Car crash scammers have been known to use aggressive tactics and target vulnerable Queenslanders. The legislation makes it illegal in Queensland for lawyers to pay a fee to a car crash scammer.

A.2 Experience over the Dec-24 quarter

This section discusses experience over the Dec-24 quarter for core claims.

A.2.1 Core claim notifications

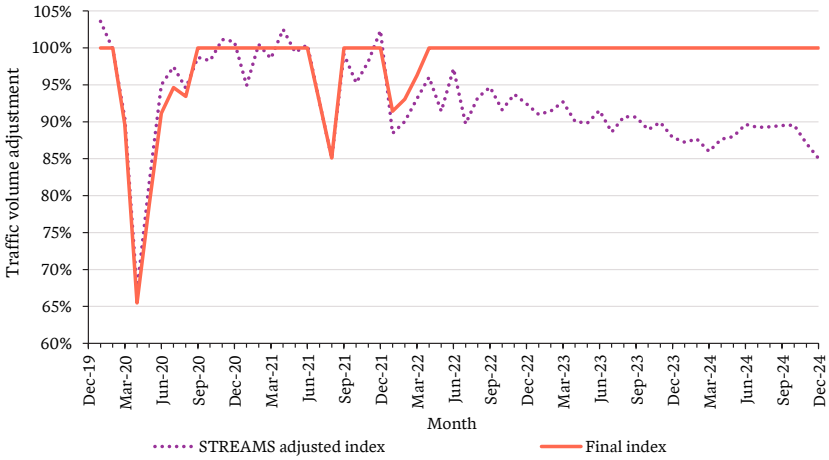
Figure A.1 – Number of core claims notified in Dec-24



After adjusting for the impact of COVID-19 and the lower traffic volumes in Mar-22, total notifications in Dec-24 were 10% higher than forecast at Sep-24.

This was mainly driven by higher-than-expected experience for the Sep-24 and Dec-24 accident quarters.

Figure A.2 – Implied traffic volume relative to 2019



To remove the impact of past extreme events on recent traffic volumes (including COVID lockdowns and the 2022 Eastern Australian floods), we adjust notification experience for periods affected by such events.

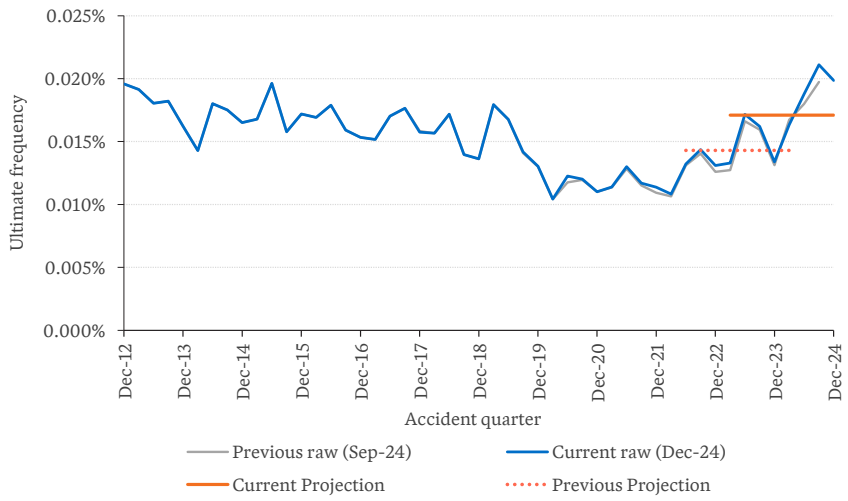
Adjustments for traffic volumes (orange line) remain unchanged at this review. No adjustment has been made for disruption in traffic volumes since the Mar-22 quarter.

Traffic volumes decreased in the Dec-24 quarter despite the observed increase in claims frequency.

We continue to rely on claims experience alone to forecast future claims frequency. We are yet to see evidence that forecasting future traffic volumes can increase the accuracy of future frequency forecasts.

A.2.2 Core claim severity profile

Figure A.3 – Severity 1N projected frequency



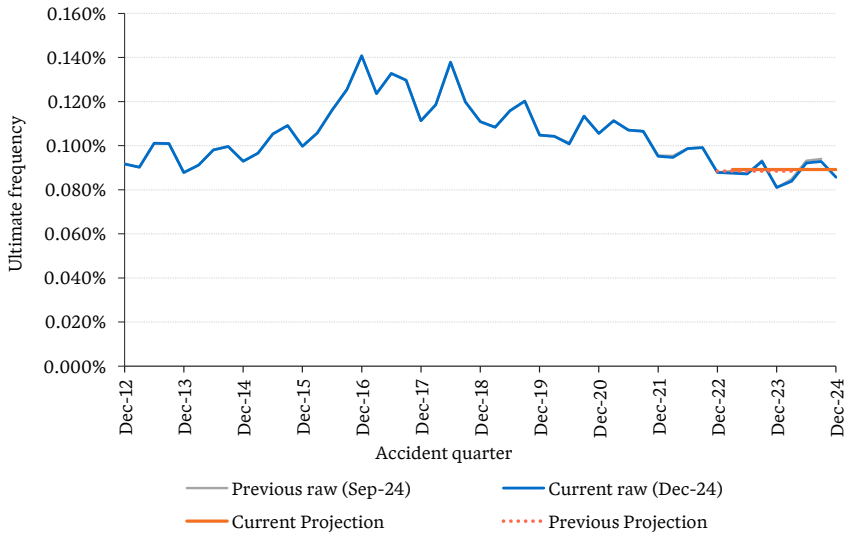
The increasing trend in Severity 1N notifications has continued in the Dec-24 quarter.

Consistent with a more responsive approach to setting overall core claim frequency, we have recognised more of the increasing Severity 1N frequency at this review.

We have included the most recent Sep-24 and Dec-24 accident quarters' experience while maintaining a 2-year averaging period.

Our adopted frequency of Severity 1N claims has **increased** at this review.

Figure A.4 – Severity 1Y projected frequency



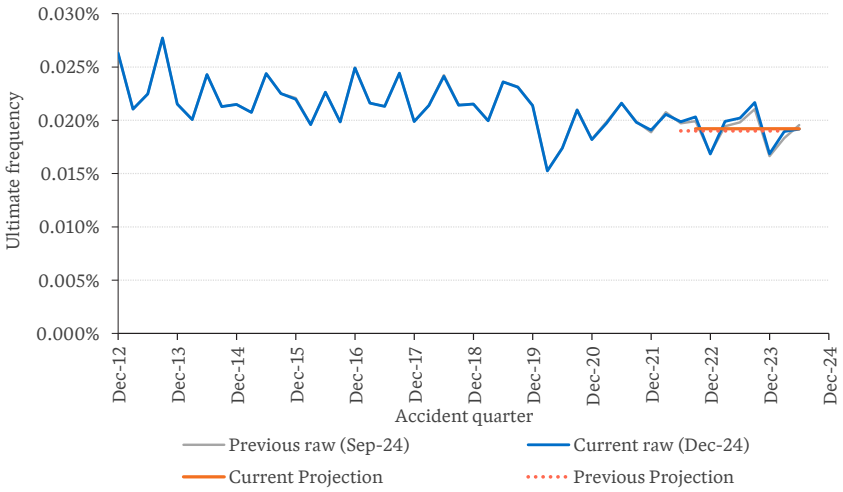
The majority of claims are Severity 1Y claims.

The frequency and proportion of Severity 1Y claims has been decreasing since Sep-21. We continue to reflect more of this experience when selecting our assumptions.

Consistent with a more responsive approach to setting overall core claim frequency, we have recognised more of the decrease in Severity 1Y claims as a *proportion* of Severity 1 claims (1N and 1Y combined) at this review.

Our adopted *frequency* of Severity 1Y claims has **increased** at this review, due to the higher overall core claim frequency, partially offset by a lower assumed *proportion* of Severity 1 claims.

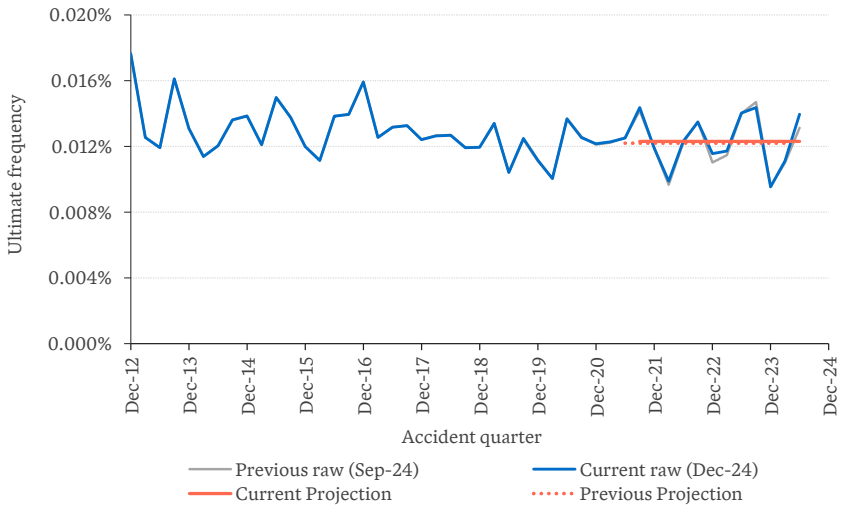
Figure A.5 – Severity 2 projected frequency



The Severity 2 frequency stepped down following introduction of claims farming reforms in 2019, and has remained relativly stable at this lower level since.

Our adopted frequency for Severity 2 claims has **increased** slightly at this review, and is in line with the experience over the past 2 accident years.

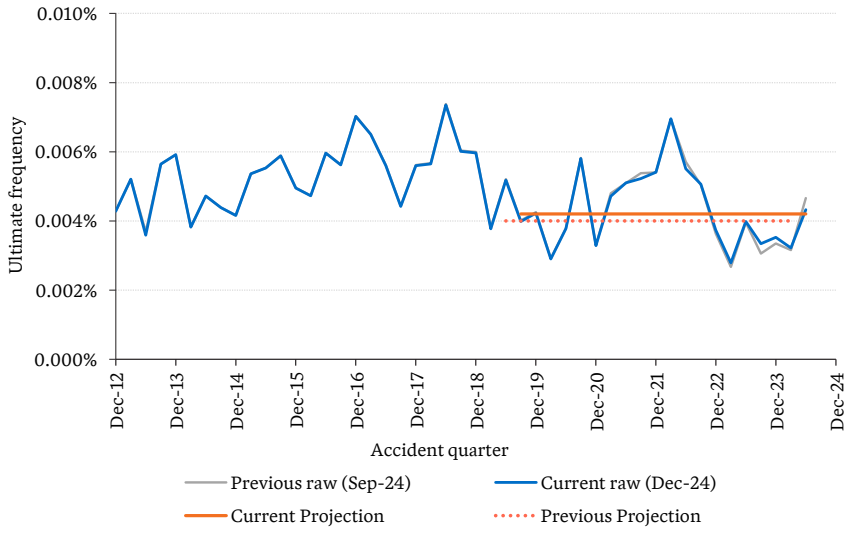
Figure A.6 – Severity 3 to 6 projected frequency



The adopted frequency for claims in Severities 3-6 is in line with the experience over the past 3-4 accident years.

Our adopted frequency of Severity 3-6 claims has **increased** slightly at this review.

Figure A.7 – Severity 9 claim projected frequency

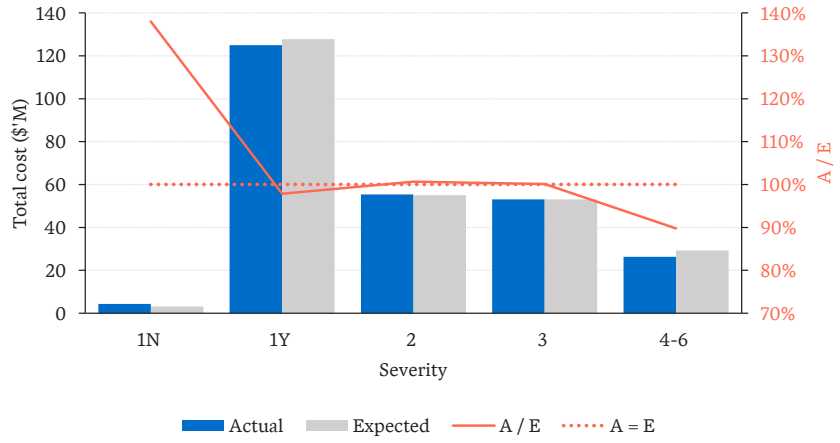


The frequency of Severity 9 claims has been volatile.

Our adopted frequency of Severity 9 claims has **increased** at this review.

A.2.3 Core claim average claim size

Figure A.8 – Finalisation experience by severity in Dec-24



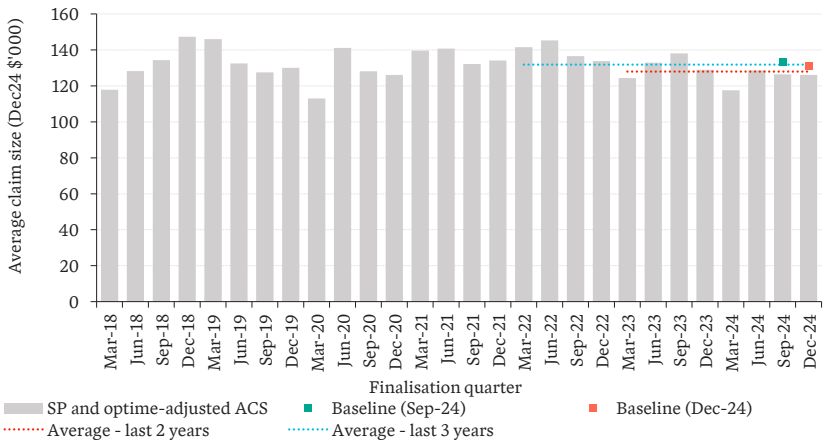
The actual cost for the Dec-24 quarter across all severities was **2% lower than** projected at Sep-24.

Severity 1N claims finalised for 38% higher than forecast, and Severity 1Y claims finalised for 2% lower than forecast.

Severity 2 claims finalised for 1% higher than forecast.

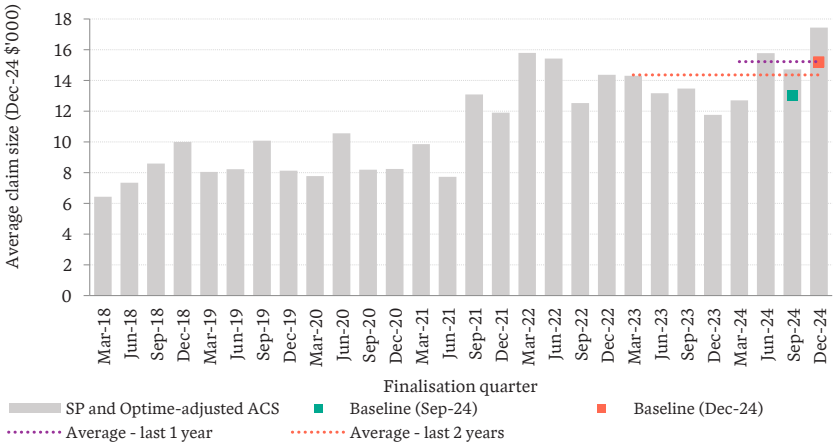
Finalisation experience for higher severity groups is volatile. Severity 3-6 claims finalised for 4% lower than forecast.

Figure A.9 – All severities average claim size



The average claim size assumed at Dec-24 is **1.8% lower than** our previous estimate due to small reductions to average claim size assumptions and a weakened severity profile.

Figure A.10 – Severity 1N average claim size

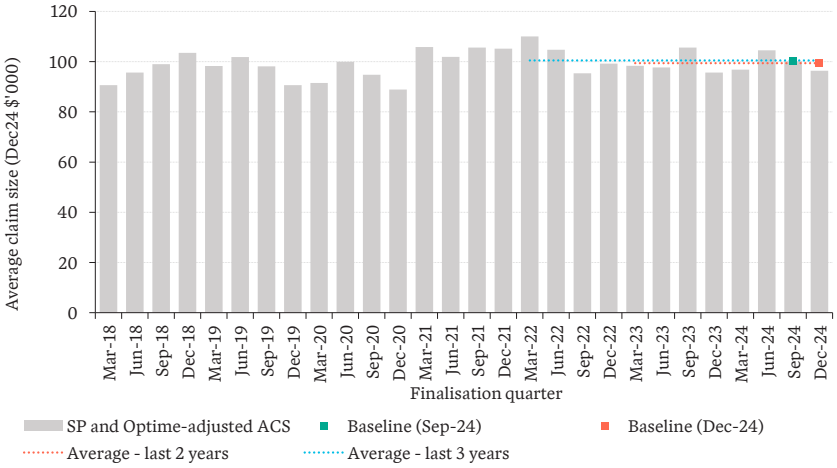


The average finalised size of Severity 1N claims stepped up in Jun-24, and increased again in Dec-24.

The Dec-24 selection is in line with average experience over the past three quarters. We have taken a more responsive approach to reflect the substitution effect from a changing mix within Severity 1.

The projected average claim size at Dec-24 is **17% higher** than projected at Sep-24.

Figure A.11 – Severity 1Y average claim size

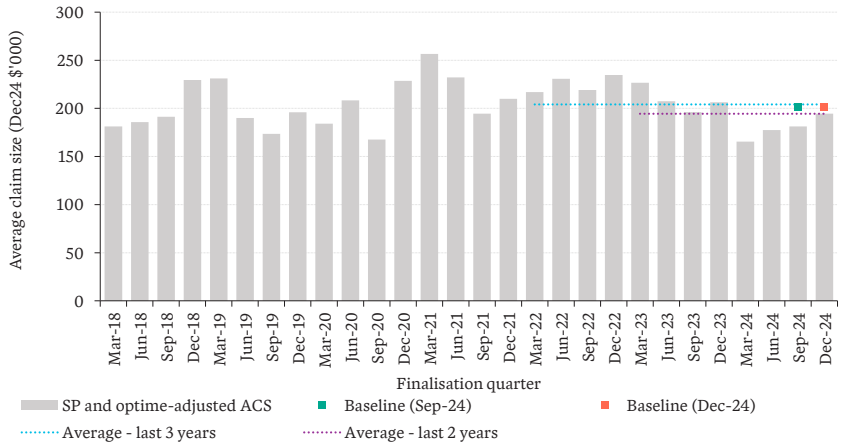


The average finalised size of Severity 1Y claims was high during Mar-21 to Jun-22, followed by lower experience since Sep-22.

We estimate the Severity 1Y average claim size by averaging across the past 2 years for low-mid operational times and across the past 3 years for higher operational times.

The projected average claim size at Dec-24 is **0.9% lower** than projected at Sep-24.

Figure A.12 – Severity 2 average claim size



The average finalised size of Severity 2 claims stepped down at Mar-24, but has since increased to Dec-24, albeit remains at a lower level than observed over 2021 to 2023.

Two underlying trends are driving the recent lower Severity 2 average claim size – (1) the average claim size of legally represented Severity 2 claims has decreased, and (2) the proportion of Severity 2 claims finalised without legal representation has increased.

The Severity 2 average claim size is calibrated to experience of the past 2 years across low-mid operational times and across the past 3 years for higher operational times.

The projected average claim size at Dec-24 is **0.4% lower** than projected at Sep-24.

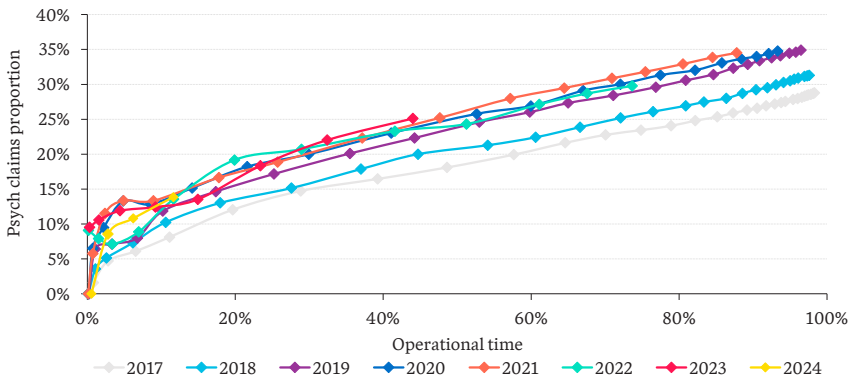
A.2.4 Psychological claims

We monitor the experience of claims with psychological injuries to ensure our finalisation models are appropriate given the emerging experience.

In recent accident years there have been **increasing proportions** of claims with psychological injury coding (psychological claims) and **faster coding** of psychological injuries. The proportion of psychological claims appears to have **stabilised since AY2021**.

On its own, the increasing proportion of psychological claims suggests that the overall average claim size may be higher. Finalisation experience suggests our current claim size model appropriately captures the effect of the increasing proportion of psychological claims.

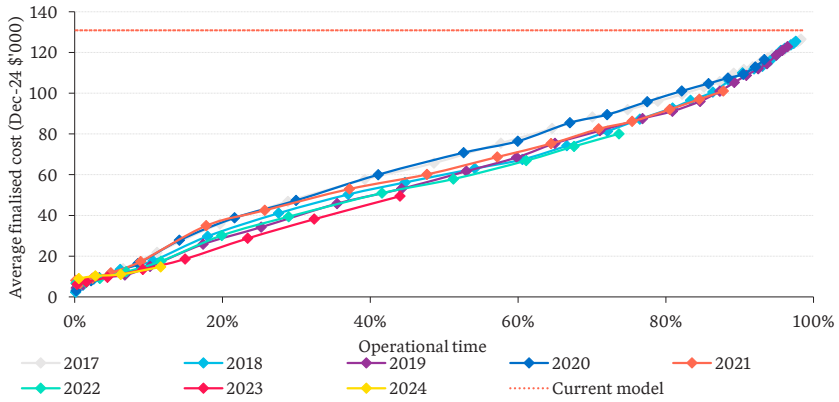
Figure A.13 – Psychological claims finalised proportion by accident year



From AY2017 to AY2021, there was an increasing trend in the proportion of finalised claims with a psychological injury.

The trend appears to have **stabilised from AY2021**.

Figure A.14 – Finalised average claim size, all claims



Note: In this figure we have scaled past cost data for the expected cost differences between accident years so that each AY consistently develops to our current projected average claim size assumption.

Finalisation experience continues to indicate that our current average claim size models appropriately capture the effect of increasing psychological claims between AY2017 and AY2021 without any need for a separate adjustment.

A.3 Economic assumptions

A.3.1 Past inflation

To determine average claim size, we inflate historical claim payments up to the date of review. We update inflation assumptions each quarter, incorporating the latest available Australian Bureau of Statistics (ABS) publications of the Average Weekly Earnings (AWE) index and Taylor Fry's market-based inflation model forecasted rates.

A.3.2 Inflation indices for Queensland CTP

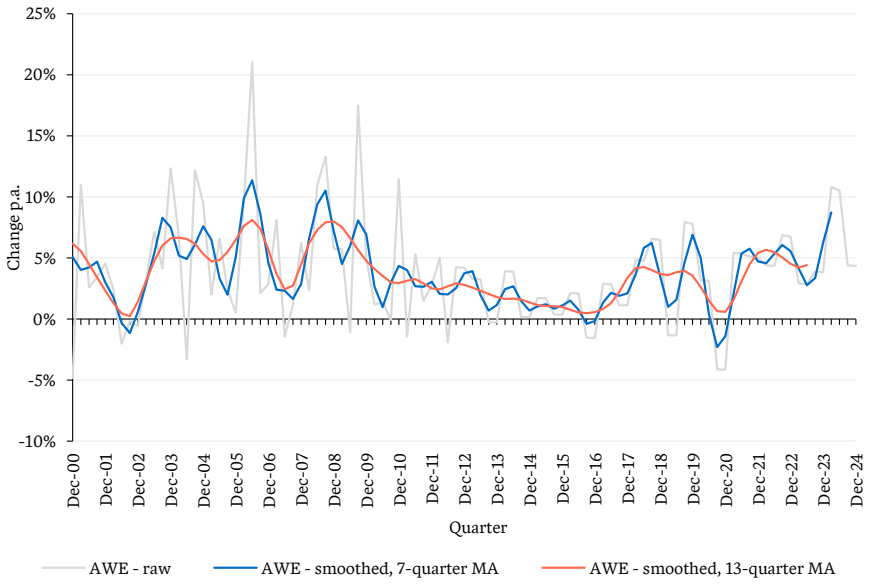
The ABS AWE release of 15 August 2024 reflected a material increase in AWE over the half-year to Jun-24 of 10.7% p.a., the highest observed increase since 2012. The increase was also observed in other states, but not to the same extent as QLD. The volatility observed in AWE, particularly over the last 5 years, adds to risk premium volatility.

At our previous review, we discussed the consideration of other inflation indices including the Wage Price Index (WPI) which may provide a suitable inflation index with more stability. Our analyses noted periods where AWE growth exceeded WPI and vice versa, likely driven by compositional differences between the two indices.

At this review, we have carried out a detailed assessment of inflation indices for QLD CTP. In our view, **AWE remains an appropriate inflation index**, because:

- AWE has captured a greater proportion of historical inflation than WPI over the long term, resulting in lower superimposed inflation (SI) estimates. This appears to be because AWE is the best inflation index for modelling growth in economic loss payments, which account for over 50% of claim payments.
- AWE captures compositional trends in the workforce, particularly recent trends towards higher-wage industries.
- Volatility under the AWE may be reduced by adoption of a longer moving average to smooth the series than under the current approach.

Figure A.15 – Queensland AWE estimates – Impact of smoothing

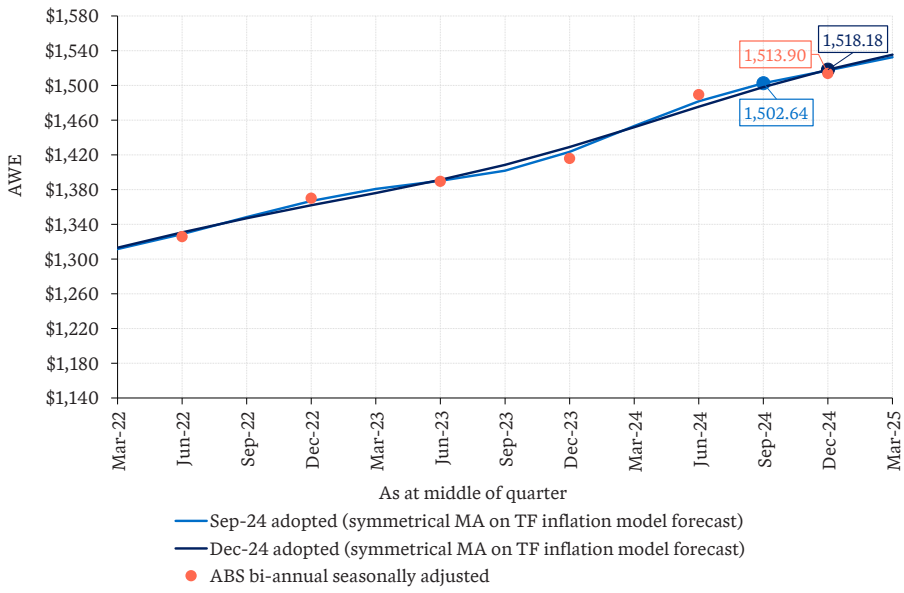


At this review, we have adopted a **13-quarter** Henderson moving average weighting pattern to smooth the AWE index (previously a shorter 7-quarter term).

The chart shows the reduction in variance from the raw AWE series due to smoothing:

- The 7-quarter moving average produces a series with significantly lower variance
- The variance further decreases under the smoother 13-quarter term series while continuing to capture the shape of underlying raw AWE series well.

Figure A.16 – Queensland AWE estimates for the Dec-24 quarter



We have applied the future inflation rates forecast by the Taylor Fry market-based model to the ABS AWE results released in Feb-25. This results in an AWE increase of 1.1% from the Sep-24 quarter to the Dec-24 quarter.

We estimate claims cost inflation using the seasonally adjusted QLD AWE index released by the ABS on a semi-annual basis.

Note: We index historical claim payments using the ABS publication of AWE, index 6302.0, QLD seasonally adjusted, all employees' total earnings series and Taylor Fry's market-based inflation model forecasted rates.

A.3.3 Future inflation and discounting

We advise on the economic gap (the difference between risk-free investment return and QLD AWE inflation rate) on a quarterly basis.

Discount rates and future wage inflation forecasts were updated at 21 February 2025.

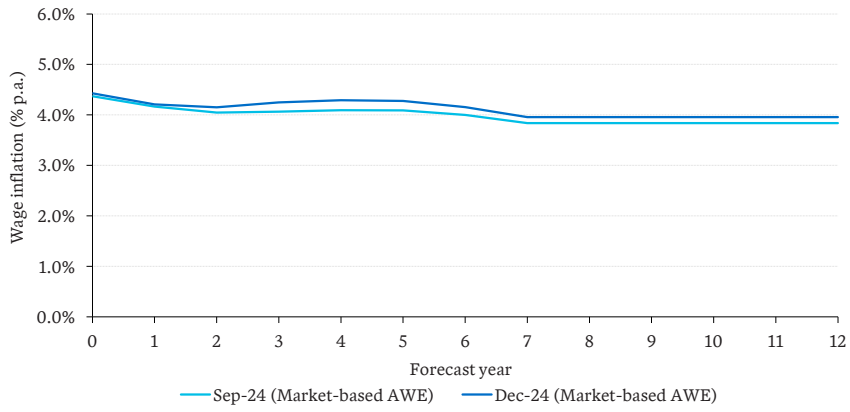
Inflation rates

At the Dec-24 review, we have provided projected QLD AWE inflation rates derived using the Taylor Fry market-based model which reflects:

- The shape of current nominal and inflation-linked bond (ILB) yield curves
- The QLD unemployment rate, and
- Long run assumptions of CPI and the gap between AWE and CPI.

It should be noted that there is an inherent degree of uncertainty with forecasting AWE inflation rates, including the strength and validity of the underlying relationships on which the forecasts are based. Full details of this model are outlined in the discussion paper "*An alternative approach to forecasting wage inflation*" dated 29 July 2019 by Richard Brookes and Nelson Vasconcelos.

Figure A.17 – Projection of wage inflation rate

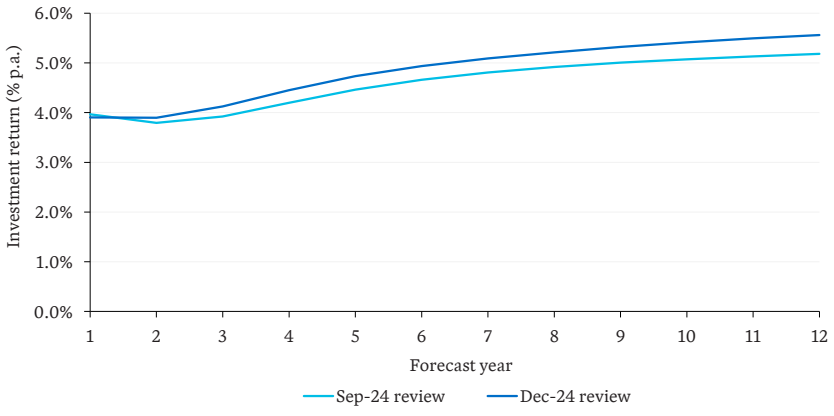


For the 2025Q3 underwriting quarter, the projected flat wage inflation rate is **4.23% p.a.** based on the market-based model.

Inflation forecasts have increased in line with an increase in nominal bond forward rates and ILB forward rates.

Discount rates

Figure A.18 – Projection of investment return



Discount rates are derived from nominal bond market yields as at 21 February 2025.

The flat discount rate assumption is **4.16% p.a.** at this review.

Economic gap

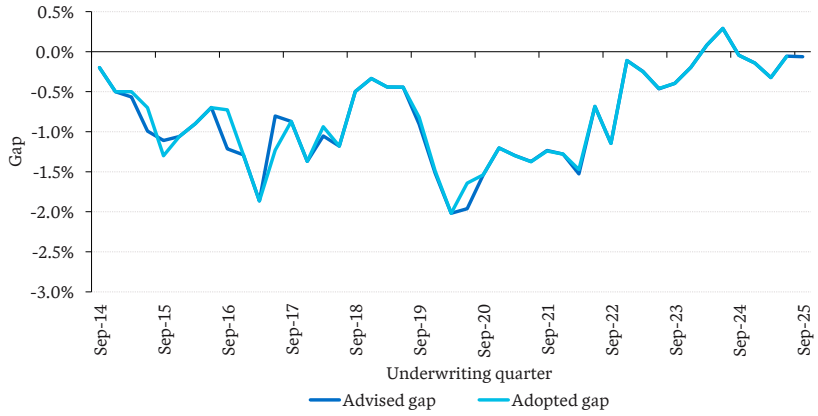
Table A.2 – Economic gap (p.a.) based on market-based model inflation forecasts

Assumption	Previous review	Current review	Change
Wage inflation	4.11%	4.23%	0.12%
Investment return	4.05%	4.16%	0.11%
Economic gap	**-0.06%**	**-0.06%**	**-0.01%**

The economic gap has remained at **-0.06%** at this review.

The flat discount rate has increased from 4.05% to 4.16% p.a. and the flat inflation rate has increased from 4.11% to 4.23% p.a.

Figure A.19 – Economic gap by underwriting quarter

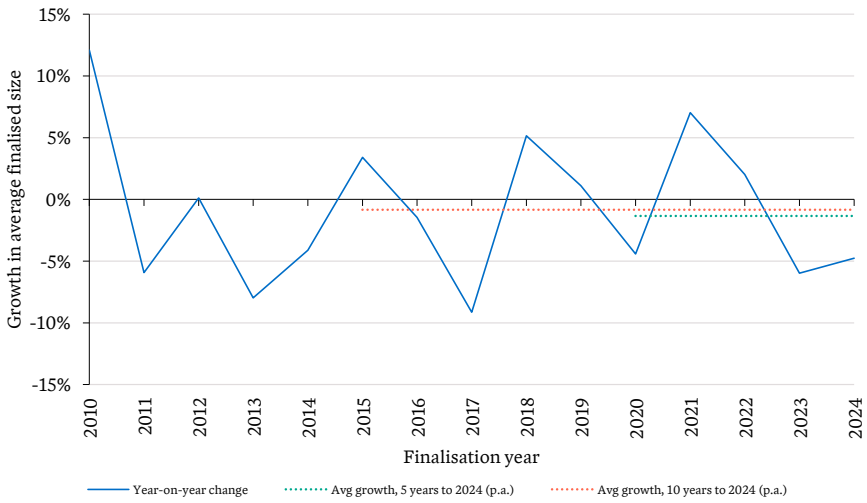


A.3.4 Superimposed inflation

We monitor superimposed inflation each quarter.

We estimate the superimposed inflation in the claim size across finalisation periods after standardising for severity mix and operational time. The charts below show finalisation period superimposed inflation for core claims only - core claims account for approximately 94% of the risk premium.

Figure A.20 – Year-on-year growth in average finalisation size



Note:

- *This chart shows finalisation period changes in average claim size for core claims only. Core claims account for approximately 94% of the risk premium.*
- *The chart is based on data for finalisations across all insurers.*
- *Average claim sizes underlying year-on-year growth rates have been "standardised" for severity mix and operational time only. It is misleading to compare these to estimates that have standardised for other characteristics such as Injury Scale Value (ISV).*

Over the long term, superimposed inflation has been benign.

We observe **negative** superimposed inflation over the 10- and 5-year periods to 2024.

The recent periods have been impacted by several 'unmodelled' factors. These include increases in the proportion of psychological claims and claims management disruptions at one insurer, reportedly resulting in reordering of claims finalisations.

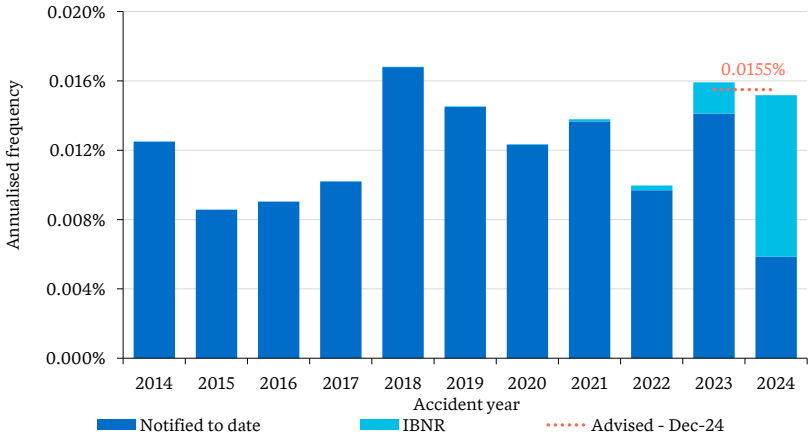
A.4 Other premium components

A.4.1 Non-core claims

This section discusses workers' compensation recovery, interstate sharing (IS) and NSW accident postcode claims experience and assumptions. These are referred to as non-core claims.

We typically review the non-core claim assumptions at each annual review. At this annual review, we have updated our assumptions for non-core claims to reflect recent experience.

Figure A.21 – Workers' compensation recovery claim frequency

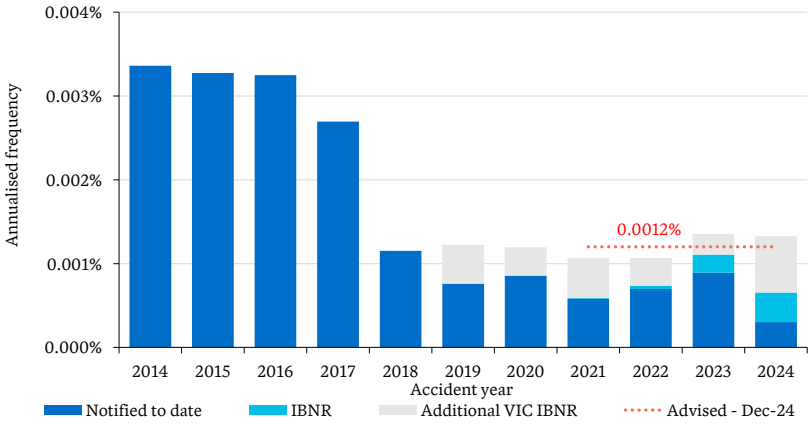


The frequency assumption for workers' compensation recovery claims has increased by 29% to 0.0155% in response to recent higher experience for accident years 2023 and 2024.

The assumed average claim size has increased by 4% after allowing for inflation to reflect recent experience.

The risk premium for workers' compensation recovery claims has increased from $1.10 at Dec-23 (adjusted for inflation) to $1.48 at this review.

Figure A.22 – Interstate sharing claim frequency



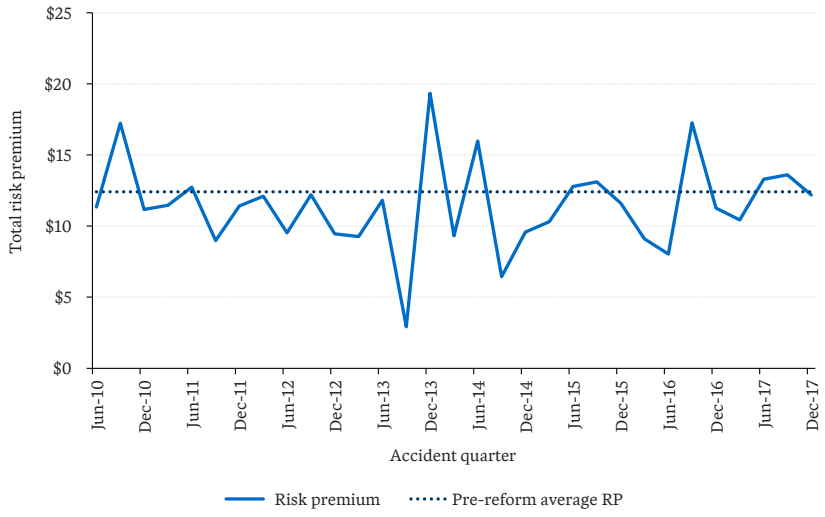
There was a marked reduction in IS claims from the beginning of the 2018 accident year attributed to a processing delay in Victorian IS claims.

At this annual review, we continue to assume a proportion of delayed Victorian IS claims from the 2018 accident year onwards will eventually be processed. Our frequency assumption has remained at 0.0012%.

The assumed average claim size has decreased by 12% (after allowing for inflation) to reflect recent experience.

The risk premium for IS claims has decreased from $0.94 at Dec-23 (adjusted for inflation) to $0.83 at this review.

Figure A.23 – NSW accident postcode claims risk premium



Observed experience for NSW accident postcode claims continues to be volatile following the Dec-17 NSW claims reform.

At this annual review, we have maintained the frequency selection of 0.0056% from our previous review.

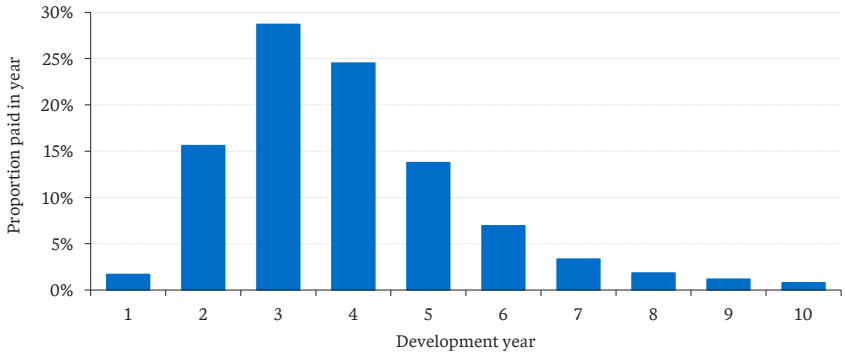
The selected average claim size has reduced slightly by 2%, driven by favourable MAIC experience.

The resulting risk premium estimate for NSW accident postcode claims has decreased from $9.37 at Dec-23 (adjusted for inflation) to $9.16 at this review.

A.4.2 Payment pattern

Taylor Fry advises on the pattern of future payments for applying the economic assumptions. The payment pattern shows when claim payments are expected to be made following underwriting.

Figure A.24 – Payment pattern



At this annual review, we have allowed for the speed up in finalisations observed over 2024 when calculating the payment pattern.

The mean term from underwriting to payment is estimated to be 3.5 years.

A.4.3 Vehicle class relativities

The vehicle class relativities determine the risk premium of each vehicle type relative to Class 1. We update our estimates for the vehicle class relativities at each annual review and more frequently where warranted. MAIC may adopt different relativities.

Table A.3 shows the vehicle class relativities estimated at the Dec-24 annual review.

Table A.3 – Vehicle class relativities

Vehicle class		Relativity central estimate (%)	90% confidence range (%)
1	Cars and station wagons	100	NA
2	Motorised homes	32	23 - 43
3	Taxis	1,121	956 – 1,297
4	Hire vehicles	199	182 - 216
5	Vintage, veteran, historic or street rod motor vehicles	6	3 - 10
6	Trucks, utilities and vans 4.5t GVM or less	120	115 - 124
7	Trucks, utilities and vans more than 4.5t GVM	400	375 - 425
8	Buses: charitable, community service, driver tuition, not otherwise for business or commercial use	177	136 - 224
9	Buses: school, therapy, rehabilitation, remedial or special education	164	124 - 209
10A	Buses: not class 8, 9 or 10B but used within 350km of base	492	410 - 581
10B	Buses: operating under an integrated mass transit service contract other than used for a school or restricted school	1,264	1,122 – 1,413
11	Buses: not class 8, 9, 10A or 10B	368	301 - 440
12	Motorcycles: for driver only	21	17 - 26
13	Motorcycles: with pillion passenger/sidecar	40	34 - 45
14	Tractors	7	3 - 11
15	Self-propelled machinery or equipment, fire engines, bush fire brigade and other emergency vehicles	180	137 - 228
16	Ambulances	190	117 - 277
17	Primary production vehicles	47	39 - 56
19	Motor vehicles conditionally registered - limited access	24	17 - 32
20	Motor vehicles conditionally registered – zoned access	4	1 - 7
21	Self-propelled machinery other than a vehicle of class 14, 15, 19 or 20	18	8 - 32
23	Dealer’s plate issued	31	17 - 48
24	Supplementary trailer insurance including Federal/Interstate	3	1 - 6
26	Ride booking and limousines	322	270 - 378
*	Personalised transport vehicles (Classes 3, 4 and 26 combined)	256	231 - 282

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