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Queensland CTP Market Briefing

Review of the risk premium for the 2026Q1 underwriting quarter

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22/09/2025

Document classification: Client use

ACN 087 047 809
ABN 29 087 047 809

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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 two stakeholder submissions which have 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 Jun-25, changes since the last review and uncertainty in the risk premium estimate.

Our estimate of the risk premium at Jun-25 is **$207.80**. 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 Jun-25

Component	Frequency %	Average claim size $	Risk premium $
Core claims	0.1475%	133,009	196.19
NSW accident postcode claims	0.0056%	165,720	9.28
Interstate sharing claims	0.0012%	69,848	0.84
Workers' compensation recovery claims	0.0155%	9,639	1.49
Estimated risk premium at Jun-25	**0.1698%**	**122,379**	**207.80**

1.1 Change since last review

The estimated risk premium at Jun-25 of **$207.80** is **$4.33 higher** than our estimate at the previous review. This estimate is in Jun-25 dollars before the application of inflation and discounting.

Figure 1 shows the contributors to the change in estimated risk premium since Mar-25.

Figure 1 – Change in estimated risk premium since the Mar-25 review

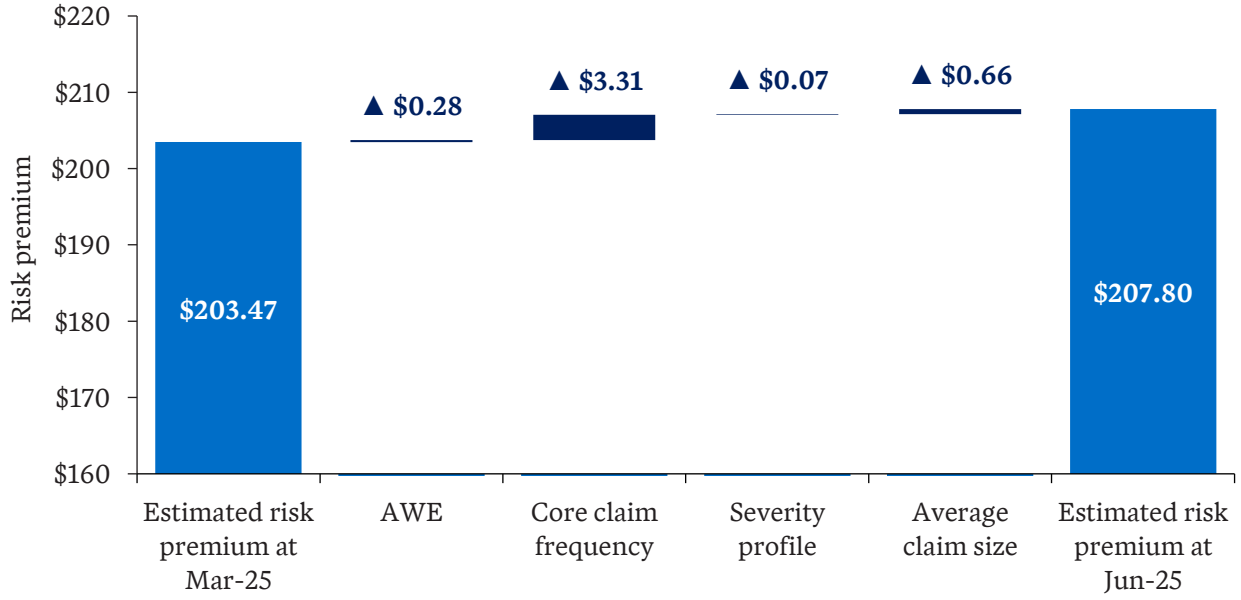


Figure 1 shows:

- An **increase in Average Weekly Earnings (AWE) over the quarter**, resulting in an increase in the risk premium of $0.28
- An increase of $3.31 due to an **increase in the core claim frequency**
- An increase of $0.74 due to an **increase in the average claim size**, which is the combined effect of:
  - An increase of $0.07 due to a **slight strengthening of the severity profile**, driven by an increase in the proportion of Severity 1N and Severity 2 claims, partially offset by a decrease in the proportion of Severity 1Y claims
  - An increase of $0.66 due to an **increase in core claim size assumptions**, driven by an increase for Severity 1Y claims and partially offset by reductions for higher severity claims.

1.2 Risk premium uncertainty

Our risk premium estimate for the 2026Q1 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

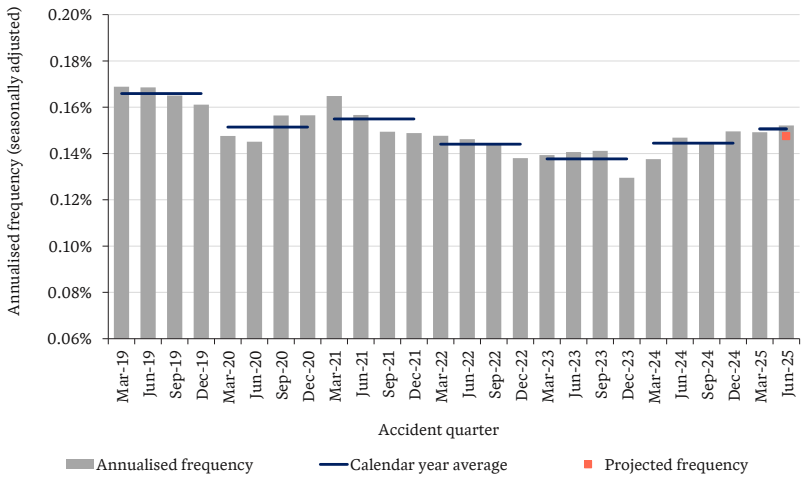
We review the core claim frequency selection quarterly.

This section outlines the assumptions for core claim frequency.

Notifications over the quarter were overall higher than forecast at Mar-25, with higher-than-expected experience for the Mar-25 and Jun-25 accident quarters.

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, the Mar-22 Eastern Australian floods and the Mar-25 Ex-Tropical Cyclone Alfred.

Figure 2 – Estimated annualised core claim frequency at Jun-25



The core claim frequency decreased from Mar-21 to Dec-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 core claim frequency has increased since Mar-24.

The advised frequency assumption at Jun-25 is calibrated to a 4-quarter average over the Jun-24 to Mar-25 accident quarters. This represents a **1.7% increase** from the Mar-25 estimate to a projected frequency of 0.1475%, with lower Mar-24 experience dropping out of the calibration window.

3 Severity profile

We review the severity profile selection quarterly.

This section outlines the assumptions for the core claims severity profile.

Legally represented Severity 1 claims (Severity 1Y) represent around 61% 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 Jun-25 and change from the previous quarter

Severity	Previous review Mar-25	Current review Jun-25	Movement
1N	13.2%	13.5%	+0.3%
1Y	61.7%	61.2%	-0.6%
2	13.5%	13.8%	+0.2%
3	6.0%	6.0%	-0.0%
4	1.0%	1.1%	+0.1%
5	0.5%	0.5%	-0.0%
6	1.0%	1.0%	-0.0%
9NA	3.0%	3.1%	+0.0%
All	**100%**	**100%**	

The severity profile has **strengthened slightly** at this review.

An increase in the proportion of Severity 1N and Severity 2 claims is partially offset by a decrease in the proportion of Severity 1Y claims, resulting in a net **$0.07 increase** in risk premium.

4 Average claim size

We review average claim size assumptions 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 Jun-25 and change from the previous quarter (adjusted for inflation), excluding changes in severity profile

Severity	Previous review Mar-25 $'000	Current review Jun-25 $'000	Movement
1N	16	16	+3.2%
1Y	103	104	+1.3%
2	201	199	-1.2%
3	386	383	-0.9%
4	735	732	-0.5%
5	1,063	1,050	-1.3%
6	327	342	+4.6%
9NA	13	14	+0.9%
Total	**133**	**133**	**+0.3%**

The core claim size assumption has **increased by 0.3%** since Mar-25, excluding changes in severity profile.

This increase is driven by severities 1N, 1Y, 6 and 9NA.

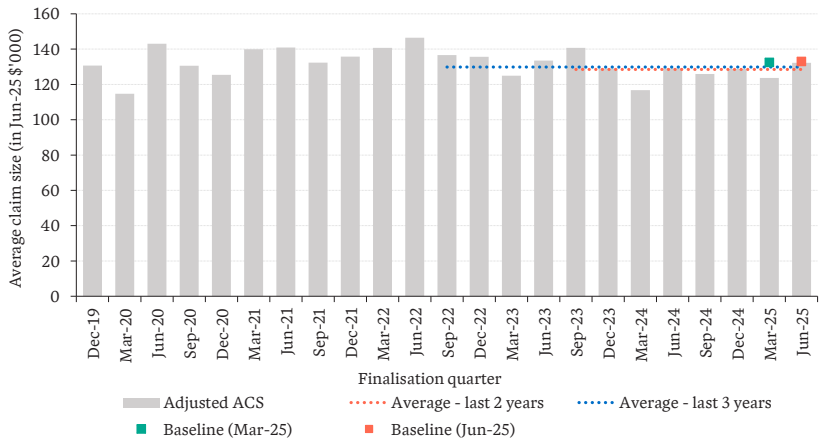
Severity 1Y average claim size experience over Jun-24 to Jun-25 has been elevated relative to the two years prior, resulting in a 1.3% increase in Severity 1Y average claim size.

Experience for Severity 1N continues to remain high, which appears to be the result of direct claims initiatives introduced by insurers.

Finalised sizes across higher severities are much more volatile than lower severities.

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)

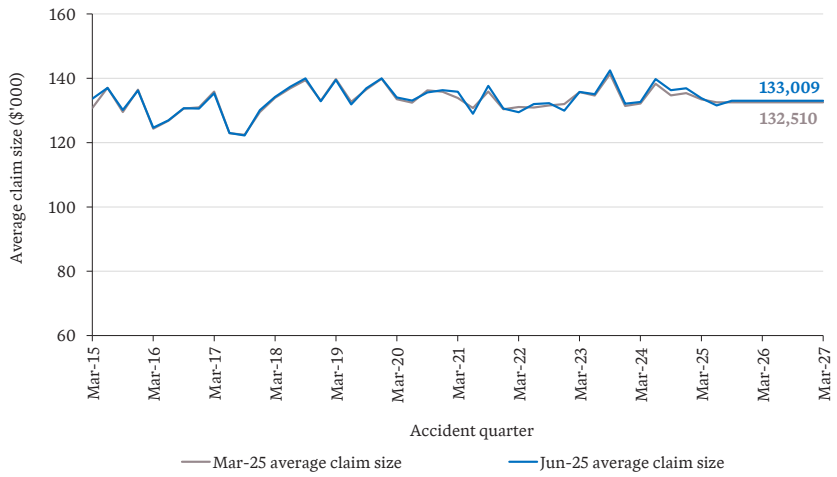


The core average claim size assumed at Jun-25 has **increased** from our previous estimate, which is the combined effect of a **strengthened severity profile** and an **increase in average claim size assumptions**.

Our current average claim size assumption is similar to the average experience of the past 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 **increased** since the previous review.

The current estimate is **$133,009**.

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 2026Q1 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 +/-$16.

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	**+$15.6 / -$15.6**
Frequency / severity profile scenarios	
Frequency in line with experience over the accident year Sep-24 to Jun-25	**+$2.0**
Severity 3+ frequency develops in line with average experience for AY2018-AY2020	**-$2.4**
Severity 3+ frequency develops in line with average experience for AY2023-AY2024	**+$1.7**
Severity 1N proportion calibrated to a two-year average, allowing for transitions from Severity 1N to Severity 1Y	**+$1.0**
Average claim size (ACS) scenarios	
Severity 1Y ACS emerges in line with the finalisation experience over the last 2 years	**-$1.6**
Severity 2N proportion of Severity 2 assumed to be 20%, excluding ACS impact on 2N and 2Y	**-$1.9**
ACS calibrated by excluding one insurer's low AY2021-AY2024 experience	**+$3.0**
ACS calibrated by excluding one insurer's high AY2018-AY2020 experience	**-$1.2**

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. While claim frequency has increased over 2024-2025, it remains below 2021 levels.

Our frequency assumption is based on the average frequency experience over the accident year Jun-24 to Mar-25. We exclude the Jun-25 accident quarter when calibrating our core claim frequency assumption because this accident quarter is underdeveloped.

If claim frequency were to emerge in line with experience over the accident year Sep-24 to Jun-25, the risk premium would increase by $2.00.

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 2026Q1 is assumed to emerge similarly to the average projected for AY2018-AY2020 then the risk premium estimate would decrease by $2.40.

If the frequency for 2026Q1 is assumed to emerge similarly to the average projected for AY2023-AY2024 then the risk premium estimate would increase by $1.70.

5.2.3 Uncertainty in the proportion of direct 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.

We have recognised more of the increasing proportion of Severity 1N claims at this review, offset by a reduction in the proportion of Severity 1Y claims.

There is however uncertainty in the assumed ultimate proportion of Severity 1 claims that will be direct and the proportion that will have legal representation. If the selected Severity 1N proportion was calibrated to a two-year average, allowing for potential late transitions from Severity 1N to Severity 1Y, the risk premium would increase by $1.00.

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

Severity 1Y average claim sizes stepped up during the Mar-21 to Jun-22 finalisation quarters, followed by lower experience over Sep-22 to Mar-24. Experience over Jun-24 to Jun-25 has been elevated relative to the two years prior.

Our Severity 1Y average claims size model is based on a mix of a 1-year average for low-mid operational times and a 2-year average for high operational times. If we were to calibrate the Severity 1Y average claim size to a 2-year average throughout, which reduces the weight on recent higher experience, the risk premium would decrease by $1.60.

The average finalised size of Severity 2 claims stepped down at Mar-24 and has remained at a lower level than observed over 2021 to 2023. Two underlying trends are driving the recent lower Severity 2 average claim size – the average claim size of legally represented Severity 2 claims has decreased, and the proportion of Severity 2 claims finalised without legal representation has increased.

If we assume 20% of Severity 2 claims will be direct (approximately 5% higher than the average proportion in the finalisation experience of the past 2-3 years), and without any offsetting increase in the average claim size of the legally represented subset, the risk premium would decrease by $1.90.

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.

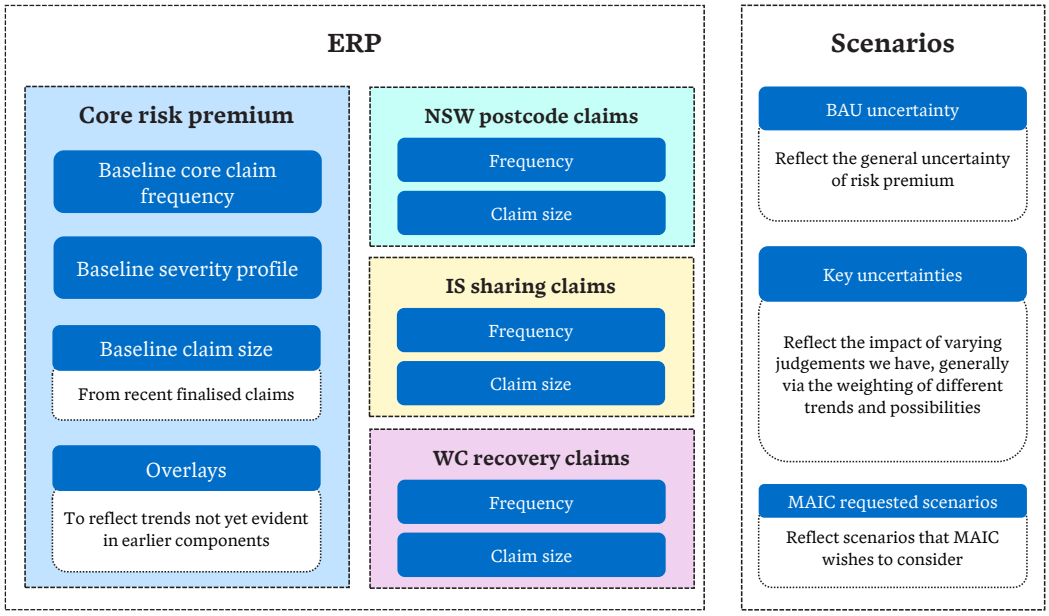
Our Estimated Risk Premium (ERP) for a given future underwriting quarter is comprised of our **baseline risk premium estimate** and **overlays**. The ERP reflects **risk premium** implied by **the most recent past accident periods**, adjusted for the impact of changes which meet the following criteria:

- 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

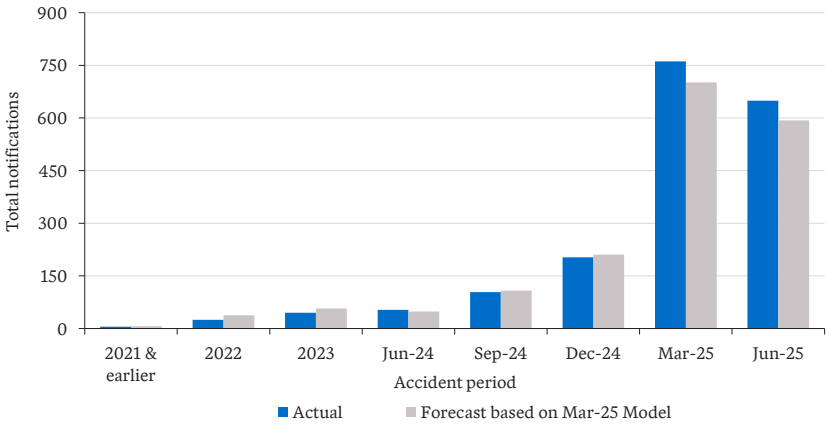
Claim	All claims recorded as notified in the Scheme data, other than Nominal Defendant claims, but specifically including those for nil or trivial amounts.
Claim severity	Claim severity refers to our severity band under which a claim falls under, which is a categorisation based on the maximum injury 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 Jun-25 quarter

This section discusses experience over the Jun-25 quarter for core claims.

A.2.1 Core claim notifications

Figure A.1 – Number of core claims notified in Jun-25

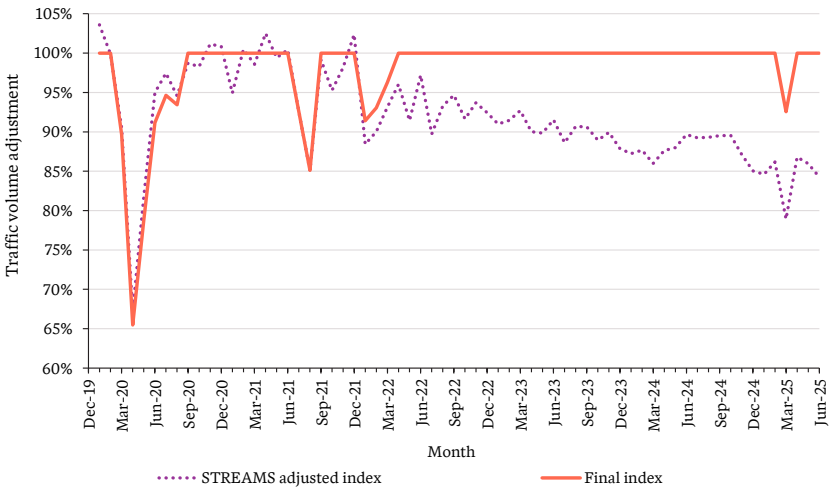


Note: Expected notifications for the Mar-25 accident quarter have been adjusted downwards for Ex-Tropical Cyclone Alfred based on traffic volumes.

Claim notifications in Jun-25 were overall higher than forecasts at Mar-25.

This was mainly due to higher-than-expected experience for the Mar-25 and Jun-25 accident quarters.

Figure A.2 – Implied traffic volume relative to 2019



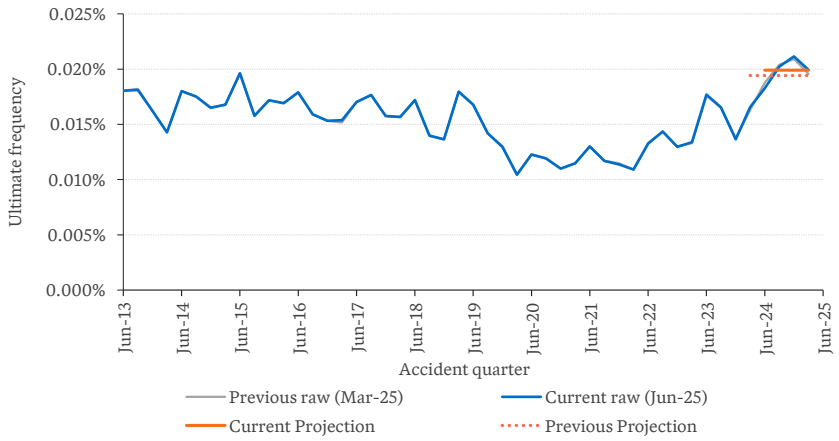
To remove the impact of past extreme events on recent traffic volumes (including COVID lockdowns over 2020-2021 and the 2022 Eastern Australian floods), we adjust notification experience for periods affected by such events.

Ex-Tropical Cyclone Alfred impacted traffic volumes in Mar-25. Since the likelihood of a similar event in the pricing underwriting quarter is low, we have adjusted the observed claim frequency for the Mar-25 accident quarter when selecting our baseline claim frequency assumption.

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

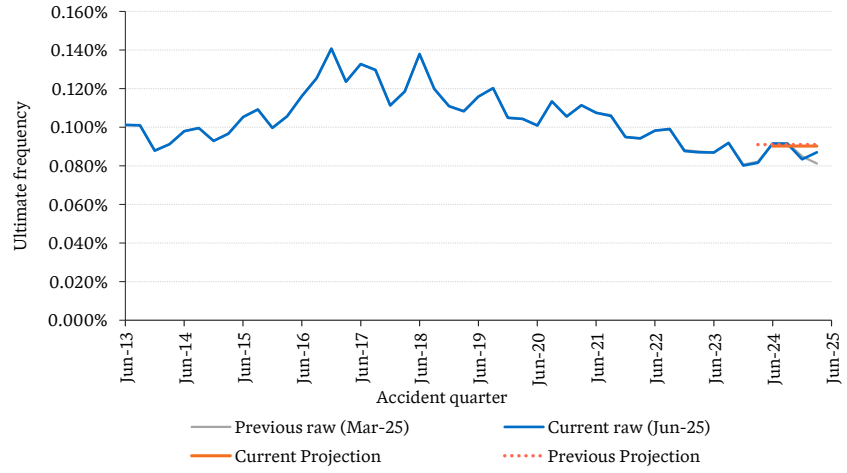


The increasing trend in Severity 1N notifications has continued in the Jun-25 quarter.

The current Severity 1N projection is calibrated to a one-year averaging period, excluding the latest accident quarter, consistent with our approach to setting overall core claim frequency.

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

Figure A.4 – Severity 1Y projected frequency

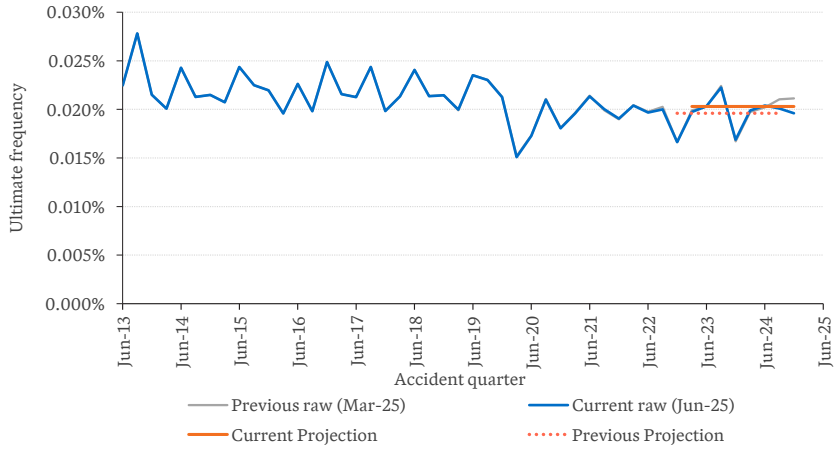


The majority of claims are Severity 1Y claims.

The frequency and proportion of Severity 1Y claims has been decreasing since Sep-21. We 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 **decreased** slightly at this review.

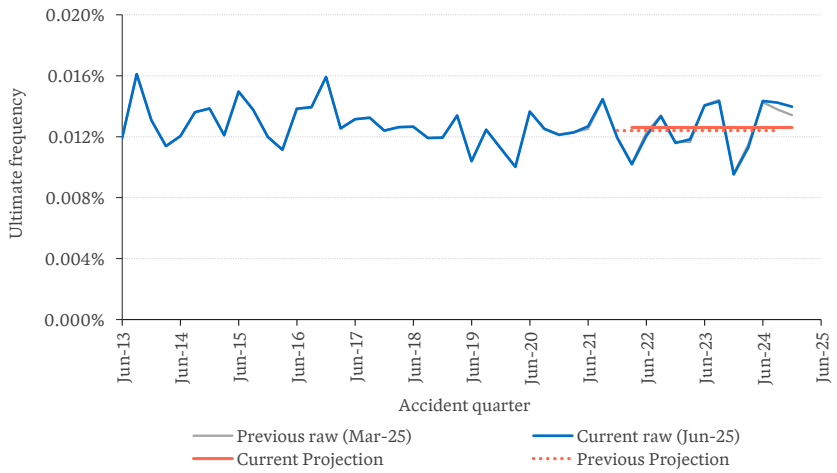
Figure A.5 – Severity 2 projected frequency



The Severity 2 frequency stepped down following introduction of claims farming reforms in 2019 and has remained relatively stable since.

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

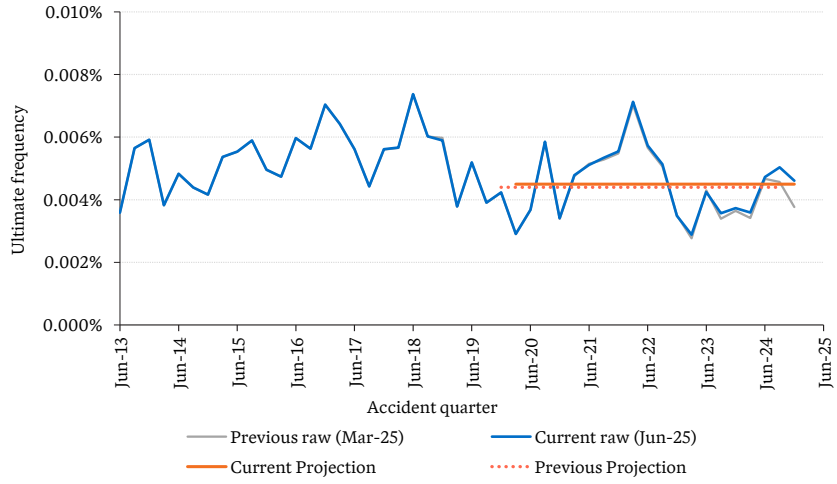
Figure A.6 – Severity 3 to 6 projected frequency



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

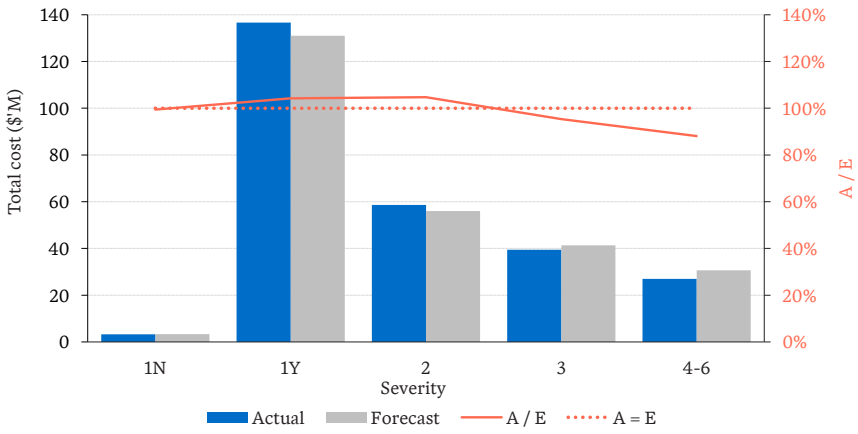


The frequency of Severity 9 claims has been volatile.

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

A.2.3 Core claim average claim size

Figure A.8 – Finalisation experience by severity in Jun-25

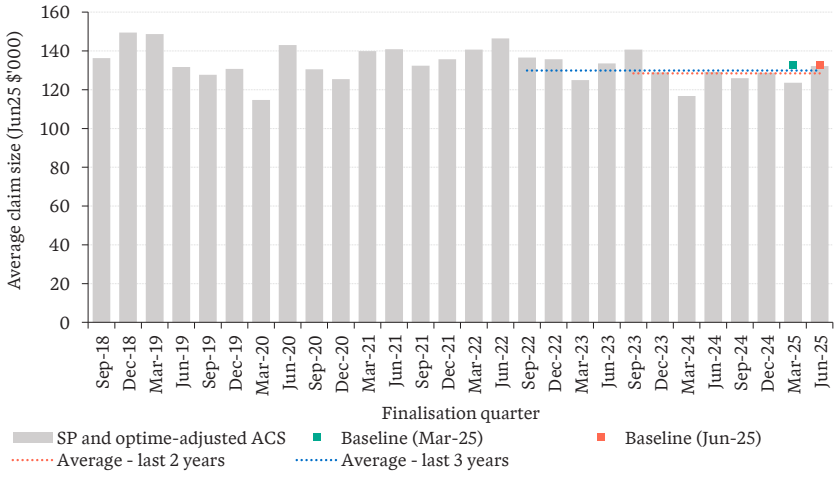


The actual cost for the Jun-25 quarter across all severities was **1% higher than** projected at Mar-25, driven by higher-than-expected experience for Severity 1Y and Severity 2 claims, partially offset by favourable experience across the other severities.

Severity 1N claims finalised for 1% lower than forecast. Severity 1Y claims finalised for 4% higher than forecast, and Severity 2 claims finalised for 5% higher than forecast.

Finalisation experience for higher severity groups is volatile. Severity 3-6 claims finalised for 8% lower than forecast.

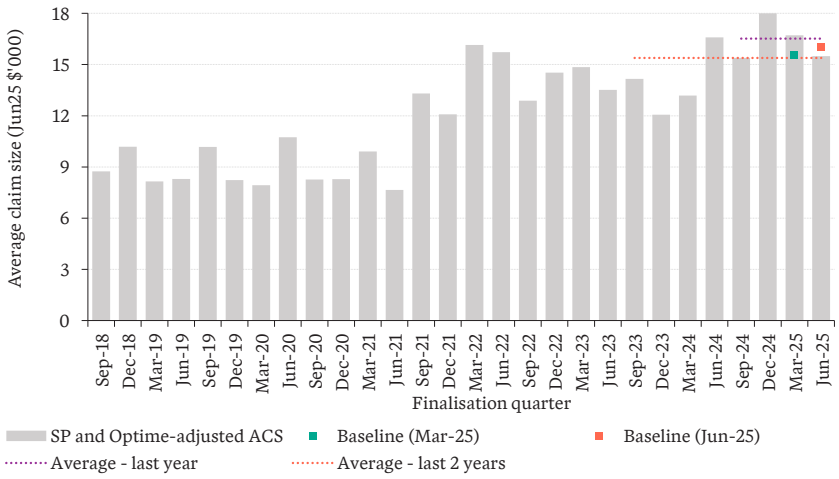
Figure A.9 – All severities average claim size



The average claim size assumed at Jun-25 is **0.4% higher than** from our previous estimate.

This is due to the combined effect of an increase to average claim size assumptions and a strengthened severity profile.

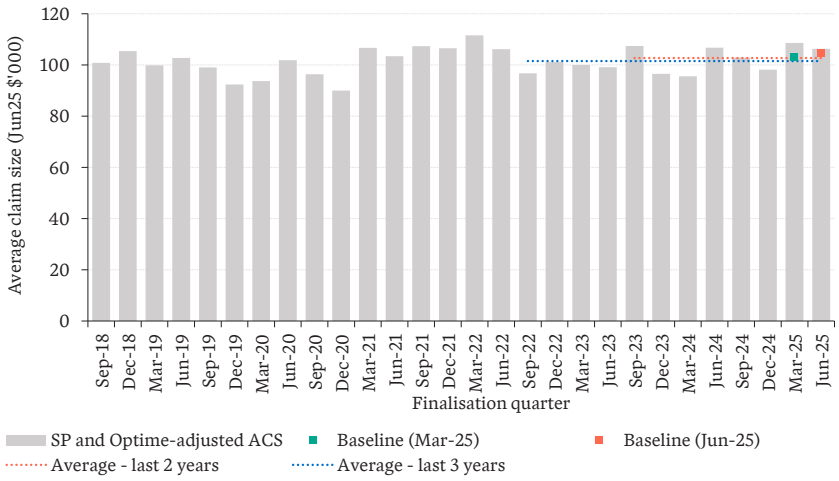
Figure A.10 – Severity 1N average claim size



The average finalised size of Severity 1N claims stepped up at Jun-24.

The projected average claim size at Jun-25 is **3.2% higher** than projected at Mar-25.

Figure A.11 – Severity 1Y average claim size

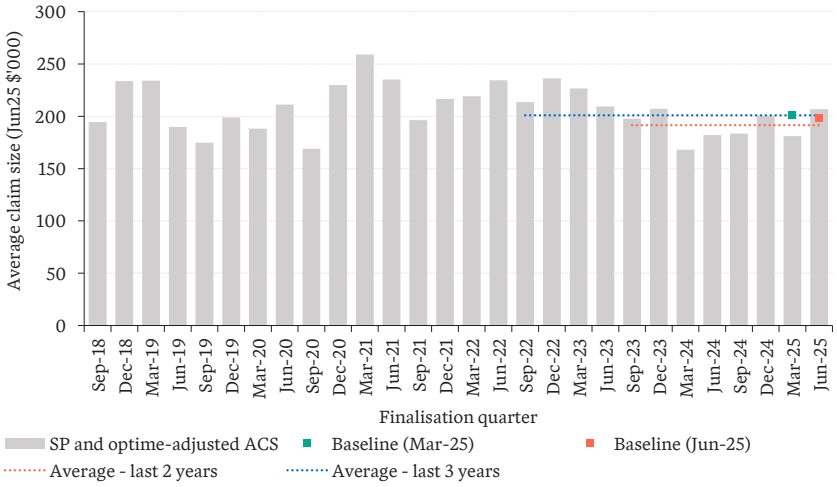


The average finalised size of Severity 1Y claims was high during Mar-21 to Jun-22, followed by lower experience over Sep-22 to Mar-24. Experience over Jun-24 to Jun-25 has been elevated relative to the two years prior.

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

The projected average claim size at Jun-25 is **1.3% higher** than projected at Mar-25.

Figure A.12 – Severity 2 average claim size



The average finalised size of Severity 2 claims reduced from Mar-21 to Mar-24 and has increased since then.

Over recent years, 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 Jun-25 is **1.2% lower** than projected at Mar-25.

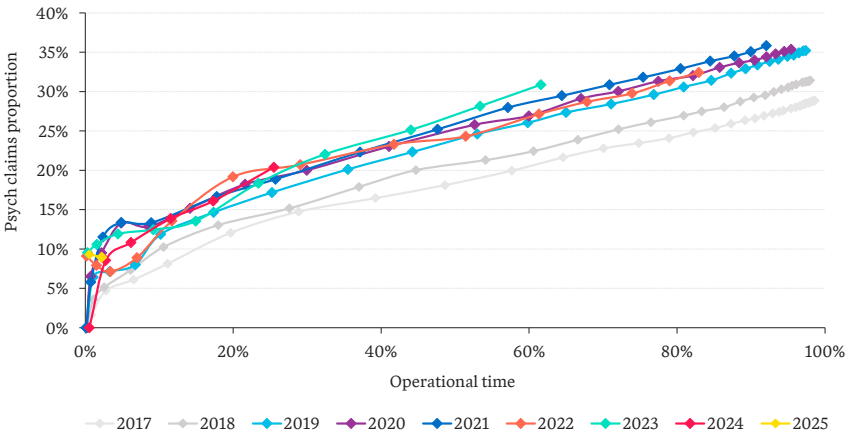
A.2.4 Psychological claims

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 increased for AY2023.

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.

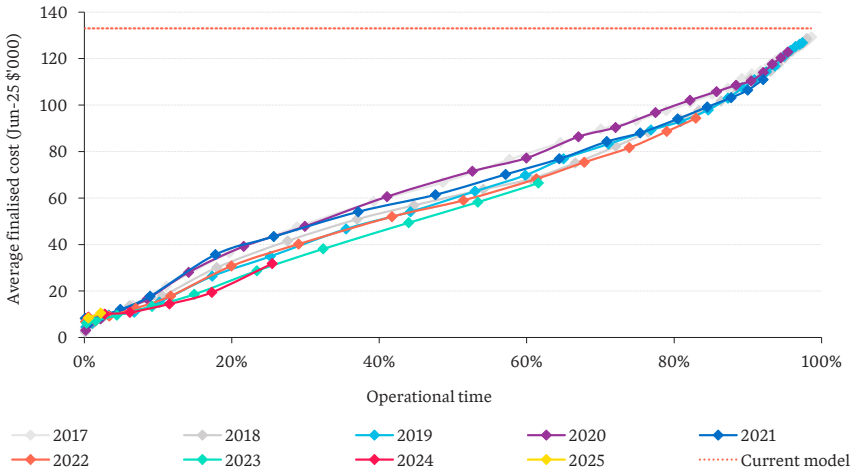
Figure A.13 – Psychological claims finalised proportion by accident year



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

The psychological claims finalised proportion for AY2023 has emerged higher than prior years over the past year, at the same stage of development.

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.

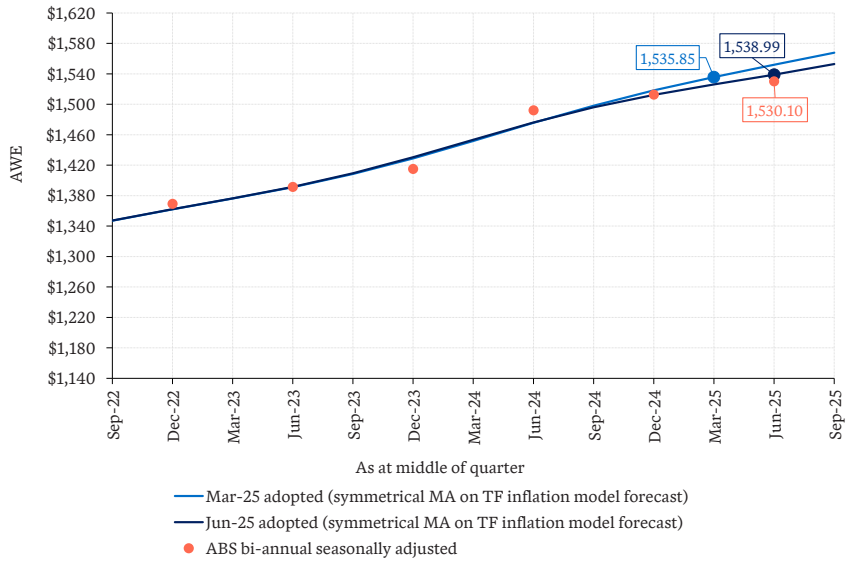
Finalisation experience continues to indicate that our current average claim size models appropriately capture the effect of increasing psychological claims without need for a separate adjustment.

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.

Figure A.15 – Queensland AWE estimates for the Jun-25 quarter



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.

We have applied the future inflation rates forecast by the Taylor Fry market-based model to the ABS AWE results released in Aug-25. This results in an AWE increase of 0.1% from the Mar-25 quarter to the Jun-25 quarter.

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

A.3.2 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 3 September 2025.

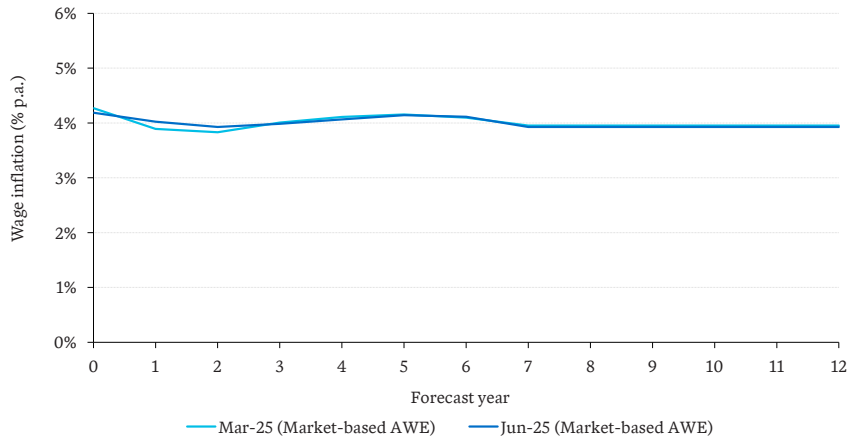
Inflation rates

At the Jun-25 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
- 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.16 – Projection of wage inflation rate

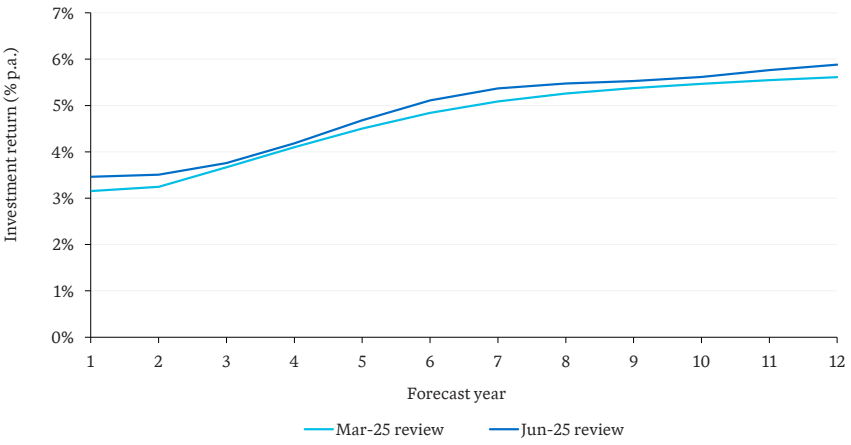


For the 2026Q1 underwriting quarter, the projected flat wage inflation rate is **4.02% p.a.** based on the market-based model.

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

Discount rates

Figure A.17 – Projection of investment return



Discount rates are derived from nominal bond market yields as at 3 September 2025.

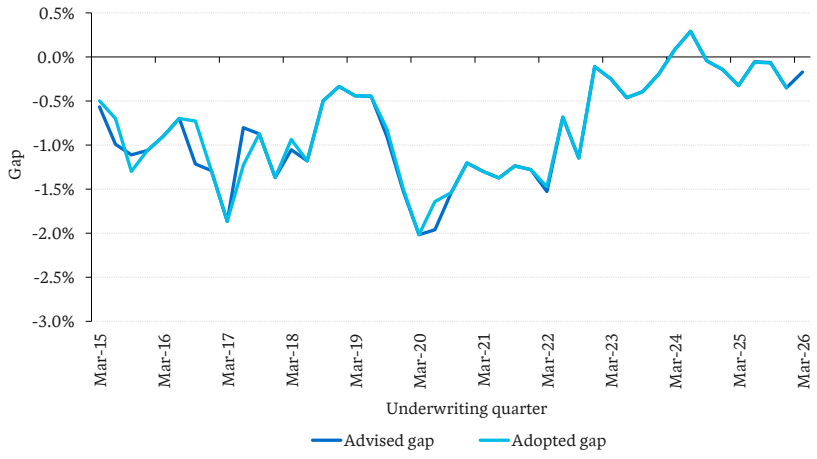
The flat discount rate assumption is **3.85% p.a.** at this review.

Economic gap

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

Assumption	Previous review	Current review	Change
Wage inflation	3.99%	4.02%	0.03%
Investment return	3.64%	3.85%	0.21%
Economic gap	**-0.35%**	**-0.17%**	**0.18%**

Figure A.18 – Economic gap by underwriting quarter



The economic gap has increased from -0.35% at Mar-25 to **-0.17%** at this review.

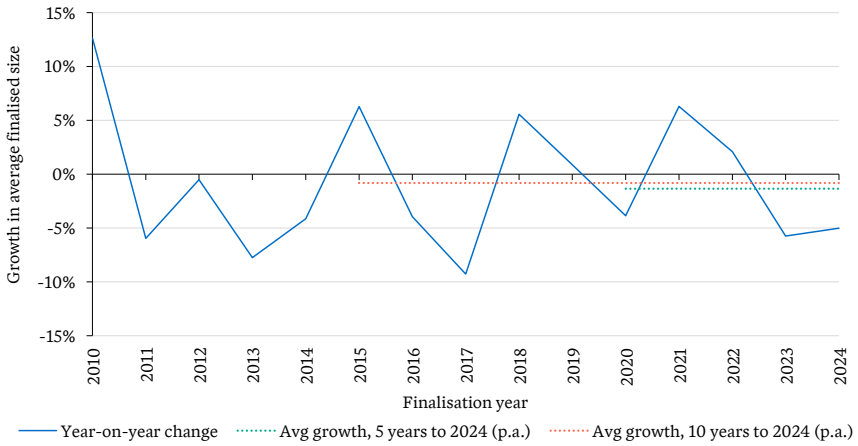
The flat discount rate has increased from 3.64% to 3.85% p.a. and the flat inflation rate has increased from 3.99% to 4.02% p.a.

A.3.3 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.19 – 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.*
- *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.

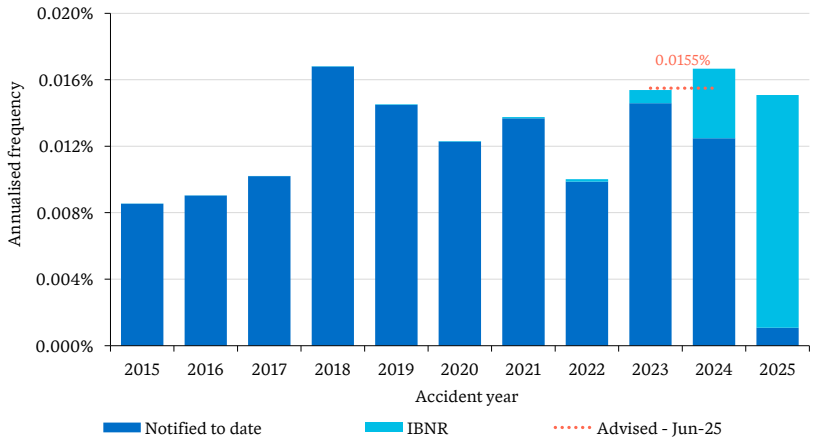
A.4 Other premium components

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. We have maintained our assumptions for non-core claims from our Dec-24 annual review.

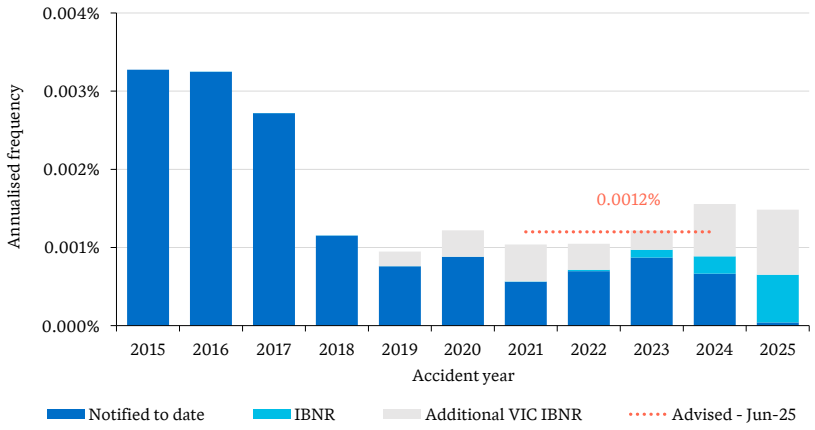
Figure A.20 – Workers' compensation recovery claim frequency



The frequency assumption for workers' compensation recovery claims remains unchanged at 0.0155%.

The risk premium for workers' compensation recovery claims has remained unchanged at $1.49 after allowing for inflation.

Figure A.21 – Interstate sharing claim frequency

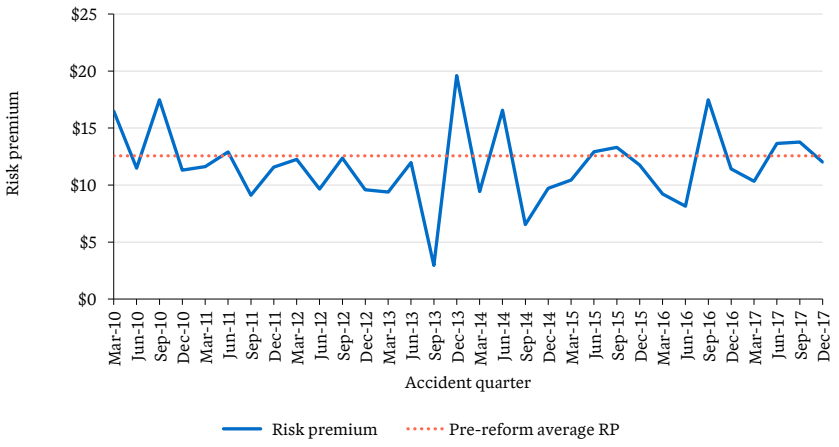


There was a marked reduction in IS claims from the beginning of the 2018 accident year attributed to a processing delay in Victorian IS claims. At the annual review, we continued to assume a proportion of delayed Victorian IS claims from the 2018 accident year onwards will eventually be processed.

Our frequency assumption at this review has remained unchanged at 0.0012%.

The risk premium for IS claims has remained unchanged at $0.84 after allowing for inflation.

Figure A.22 – NSW accident postcode claims risk premium



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

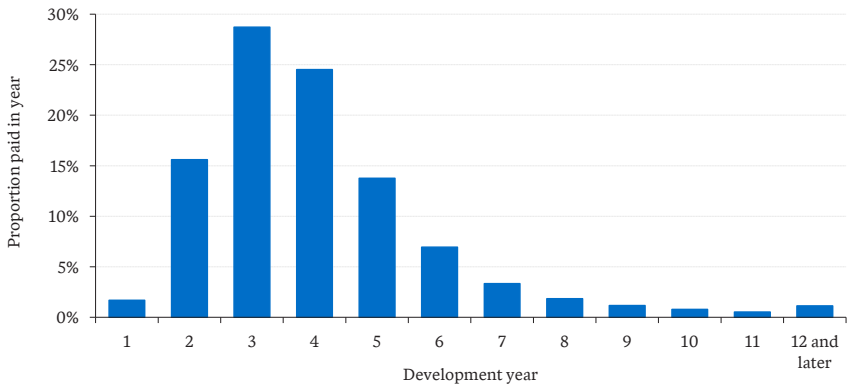
At the annual review, we maintained a frequency selection of 0.0056% and reduced the assumed average claim size slightly, reflecting favourable MAIC experience.

The risk premium estimate for NSW accident postcode claims remains unchanged at this review at $9.28 after allowing for inflation.

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.23 – Payment pattern



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

The payment pattern is generally reviewed annually. We have not changed the payment pattern at this review.

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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