Actuaries Institute

PANDEMIC BRIEFING

Motor injury schemes high level summary

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PREPARED BY: COVID-19 CTP Working Group

Content

- Financial year end reporting
- Premiums

Financial year end reporting

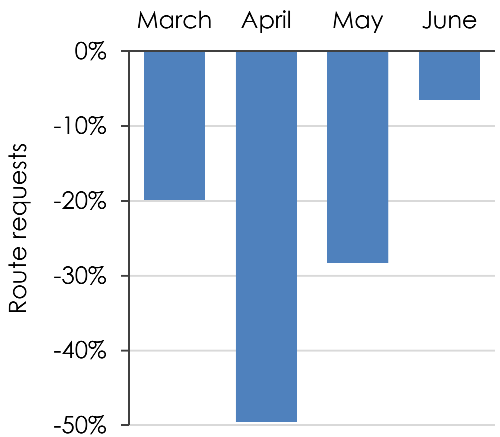
Reserving at 30 June

- Claim frequency has a strong relationship to traffic volumes.
- Traffic volume has recovered quickly as the states have exited lockdown.
  - Notwithstanding further lockdowns, the impact of state traffic on claim frequency will be temporary.
  - The eastern states have seen the biggest fall in traffic, with the smallest percentage bounce-back occurring in May and June.
  - SA and WA have been relatively mobile during the lockdown period and are closer to reaching normal traffic volumes by the end of June.

Insurers should consider …

- When using external data, the potentially longer timeframe to reflect accurate information. It is recommended insurers use multiple sources to gain a balanced picture by state.
- The potential for subsequent outbreaks to lead to further lockdowns and lower traffic volume.
- How the benefit of reduced activity and expected claims, is being realised in actual insurer experiences.

Traffic routing requests



Source: Apple Mobility Trends reports

Financial year end reporting

Reserving at 30 June

Claim size

- Claim mix may change during low traffic periods. For example:
  - More open roads may result in higher speed, or riskier driving .
  - Lower congestion and use of public transport may reduce low speed injuries.

  Early evidence suggests claim severity mix may not be overly different to pre-COVID-19 levels. Road fatalities are down by 25% across Australia since lockdown commenced, which is roughly consistent with traffic decreases.
- Higher claim payments may result from:
  - Higher unemployment (and difficulty in securing a job or getting back to work).
  - The deterioration in mental health of claimants.
  - Heightened fraud risk and exaggeration of injuries.

Impact on treatment industries

- Access to, and demand for physical treatment facilities, has been adversely impacted.
- Early intervention initiatives, such as rehab and mental health treatments, have been impacted and this could lead to worse health outcomes. This could also place upward pressure on claims costs.
- There has been an increase in the utilisation of telehealth services, which has alleviated some of the issues surrounding the accessibility of treatment.
- The impact on claimant outcomes will remain unclear for some time.
- Regulators are concerned with the impact on claimants, particularly those in regional and rural areas.

Risk margin

Please refer to the Risk Margin paper authored by the COVID-19 Risk Margin Working Group.

Premiums

How is government approaching premium setting?

- Government insurers will consider the impact of COVID-19 on the balance sheet, and where asset position might have taken a hit.
- Most regulators of private insurers have already gone through the premium setting process. It will therefore be up to the private insurers to set a premium they are comfortable with within the boundaries set by the regulators.

How are regulators approaching profit?

- The tools at-hand for regulating profit outside of premium setting are limited except for the TEPL in NSW.

Premiums

What will traffic look like in 2020/21?

We have seen that traffic volume has returned close to normal. Opinions differ however, on whether this new normal has a different traffic mix. For example:

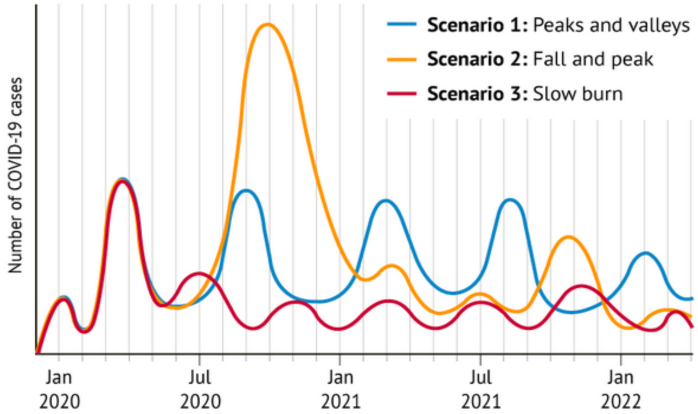
- Working from home may become more common.
- Utilisation of public transport may change.
- The type of risks on roads may differ:
  - taxi and ride-share recovery could be much slower than private vehicles; and
  - Heavy vehicles activity has not reduced as significantly during the lockdown.
- Areas with a higher proportion of white-collar workers may see a slower recovery in traffic.

Other factors to consider

- The tension between depressed expected investment return and inflation forecasts.
- Lower vehicle registration and higher cancellation as households and businesses tighten expenses, could see lower policy count.

…'normal' may not matter for the upcoming underwriting period. The chance of further lockdowns in 2020/21 should be a material consideration.

COVID-19 case scenarios



Source: CIDRAP ("COVID-19: The CIDRAP Viewpoint")

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