

### Whole person. Whole system.

**IDSS 2023** 

12 – 14 November Hobart



# Acknowledgement of Country

We acknowledge, respect and value Aboriginal peoples as the Traditional Custodians of the lands on which we live, walk and work. We pay our respects to Elders, past, present and future. We recognise and remain committed to honouring Aboriginal and Torres Strait Islander peoples' unique cultural and spiritual relationships, and continuing connection to their lands, waters and seas. We acknowledge their history here on these lands and their rich contribution to our society.

### Whole person. Whole system

12 – 14 November | Hobart



# Profitability in the long tail insurance schemes: too much or not enough?

### Danny Rouel and Celia Man

© Danny Rouel, Director Financial Services, EY © Celia Man, Director Premiums and Markets, State Insurance Regulatory Authority

This presentation has been prepared for the Actuaries Institute 2023 Injury and Disability Schemes Seminar. The Institute Council wishes it to be understood that opinions put forward herein are not necessarily those of the Institute and the Council is not responsible for those opinions.



# Lay of the land: long tail schemes

### **Profitability in Long Tail Schemes**



Long tail liabilities		High level of uncertainty		Materially different experience to assumptions		
	Mean terms of 5,10, 20 years	Variability of assumptions		Tendency to react		
K	Low frequency of occurrence	Assumptions include: Claims frequency		Quicker:		Slower:
Ê	High costs due to claims' severity	Average claim size Economic factors e.g. wage inflation, superimposed inflation		costs incre	ns S Base	costs decrease
	Examples of long-tail claims • CTP • Workers'	Lineartainty in ultimate			Actual claims experience can be significantly <b>lowe</b> than expected	
	<ul><li>Compensation</li><li>LTCS</li><li>Liability</li></ul>	claims costs			This can result in the emergence of <b>high profits</b>	

Due to the high uncertainty of long tail liabilities, large variations in profits or losses may arise. In the NSW CTP Scheme, excessive profits or losses may be redistributed back to policyholders through TEPL.



# What is TEPL and why do we need it



### The Transitional Excess Profit and Loss Mechanism (TEPL) in the NSW CTP Scheme



Affordability



Honeymoon for the new scheme



Prevent Excess Profit and Loss



Incentives for innovation

#### What is TEPL?

A mechanism set in the Motor Accidents Insurance Act 2017 to ensure underwriting profits achieved by insurers during the transition period are not excessive or inadequate

# The Transitional Excess Profit and Loss Mechanism (TEPL) in the NSW CTP Scheme



#### High profits in the CTP Scheme historically, high premiums reaching low affordability levels





# How does TEPL work?

### How does TEPL work? Process overview





### **Considerations for TEPL recoveries**





#### Certainty of excess profits



#### Impact to customer premiums



#### Consistency of customer premiums

### SIRA always considers a number of key aspects when making a TEPL decision:

- Probability of industry being in excess profit or excess loss
- Level of certainty in the quantum of excess profit
- The risk of recouping too much profit too early
- Volatility of premiums as result of the TEPL adjustments
- Timeliness of returning the excess profit to customers



Fairness



### How does TEPL work? Preliminary Industry Profit Assessment



### How does TEPL work? Reassessed Industry Profit Margin







### Central estimate methodology Is this adequate for making decisions

Potential scenario: excessive profit recovery for a single accident year



■ Industry TEPL earned premium ■ Ultimate claims cost including expenses ■ Assessed profit ■ Too much proft recovered ■ Excess profit recovered

# TEPL Outcomes – Profit Recovery Illustration



IDSS 2023 Actuaries

### TEPL Outcomes – Loss Recovery Illustration





# IDSS 2023

# TEPL journey: outcomes so far

## What are the benefits of TEPL?



#### **Greater Affordability**

Discounts provided to customers [\$29 per policy]



### Avoidance of excess profits

**IDSS 2023** 

Actuaries Institute.

Recovery amounts [\$90m, \$178m, TBC]



#### Scheme sustainability

Greater understanding of the profitability of the Scheme over time



#### Pricing levels

Provides a retrospective view of pricing levels against emerging claims costs



#### Innovation

Numerous Innovation support applications

# Actual outcomes so far

Assessment <b>Cycle</b>	AY2018	AY2019	AY2020	AY2021	Customer Average Impact
2020	nil	-	-	-	\$O
2021	\$90.6m	nil	-	-	\$15 discount
2022	\$175.5m	\$3.2m	nil	-	\$29 discount
2023	TBA	TBA	TBA	TBA	TBA

- Three annual TEPL
  assessment cycles
  completed so far
- The 2023 assessment cycle is currently underway



# Premium affordability improved significantly post reform

IDSS 2023

TEPL recoveries helped maintain the CTP premiums low and offset the normal inflationary pressures



### TEPL Innovation Support Framework



**IDSS 2023** 

Actuaries Institute.

### CTP disruptive innovation journey

feedback loop



scheme, SIRA wide

**IDSS 2023** 

Actuaries Institute.



# What have we learnt?

## **Risks and learnings**



#### **Risks**



#### **Customer Risks**

- Premium shocks once subsidies are exhausted
- Contributors of excess profits may not be beneficiaries of the TEPL recoveries



#### Technical Risks

- Technically complex process
- High uncertainty assessment



Learnings

#### **Customer Learnings**

- Assess impact to premiums over multiple years
- ~24 months lag time to return excess profits to customers



#### **Technical Learnings**

- Simplifying assumptions where possible
- Risk margin concept to manage uncertainty



#### **Operational Risks**

- Risk of recovering too much, too early
- Stakeholder management is critical
- Innovation incentives not always available to insurers



#### **Operational Learnings**

- Operate efficiently where possible without compromising process
- Innovation incentives are only available when TEPL is triggered



# In conclusion...

# It works so far – worth considering using elsewhere

A profit regulation mechanism similar to TEPL could be appropriate for insurance schemes or products with characteristics akin to the NSW CTP scheme.



**IDSS 2023** 

Actuaries Institute.



### Thank you

### **IDSS 2023**

www.linkedin.com/in/celiaman

https://www.linkedin.com/in/danny-rouel-493583150

12 – 14 November Hobart