

Australian Capital Territory

Motor Accident Injuries (Premiums) Guidelines 2019

Disallowable instrument DI2019–245

made under the

Motor Accident Injuries Act 2019, section 487 (MAI Guidelines)

1 Name of instrument

This instrument is the *Motor Accident Injuries (Premiums) Guidelines 2019 (No 1)*.

2 Commencement

(1) This instrument commences on the day after it is notified.

(2) The *Legislation Act 2001*, section 81(6) applies to this instrument.

Note: The *Legislation Act 2001*, s 81 provides for the exercise of a power given by a law if the law, or amending law, has been notified but has not yet commenced.

3 Guidelines

I make the MAI Premium Guidelines attached to this instrument.

4 Application to premium filings and MAI policy

The MAI Premium Guidelines apply to a filing submitted after the commencement of the instrument in relation to a premium for a MAI policy issued on or after 1 February 2020.

Lisa Holmes
MAI Commissioner
MAI Commission

31 October 2019



ACT
Government



**Motor Accident
Injuries
Commission**

MAI PREMIUM GUIDELINES

Section 316 of the *Motor Accident Injuries Act 2019*

1. PREAMBLE

1.1 The Motor Accident Injuries Premium Guidelines form part of the mechanism for the prudential regulation of Motor Accident Injuries (MAI) insurance premiums under Part 6.7 of the *Motor Accident Injuries Act 2019* (the Act).

1.2 Definitions

Terms used in the Act and Regulation, unless the contrary intention appears, apply to these Guidelines.

“Motor Accident (MA) Levy” is a levy imposed pursuant to section 490 of the *Motor Accident Injuries Act 2019* to fund the MAI Commission.

“MAI framework” is the MAI Act, the *Road Transport (General) Act 1999* and all associated subordinate laws.

“Defined Benefits application” means a defined benefits application made under the MAI Act which can lead to benefits for treatment and care; income replacement; quality of life; and / or funeral and death benefits.

“De novo filing” means a filing where all evidence, including assumptions and statistical data, are considered anew.

“Effective date” is the date that premiums take effect following an approval by the MAI Commission.

“Insurer’s base premium” is the 12-month insurer’s premium for a class 1 passenger vehicle whose policyholder is not entitled to any ITC and includes the Motorcycle Premium Loading, GST and the Nominal Defendant Loading but excludes the MA Levy.

“ITC” policyholder means a policyholder who is eligible to claim an Input Tax Credit in respect of the premium paid for a MAI policy as defined in the MAI framework, whether or not the policyholder actually claims an Input Tax Credit.

“ITC premium” means a MAI premium for which there is an entitlement to claim an Input Tax Credit.

“MAI Premium Class”, as outlined in the *Motor Accident Injuries (Premiums and Administration) Regulation 2019*, means a class mentioned in an item in schedule 1, part 1.2 of the Regulation, consisting of:

- (a) a class number mentioned in column 2 for the item; and
- (b) a kind of motor vehicle or trader’s plate mentioned in column 3 for the item; and
- (c) a case (if any) mentioned in column 4 for the item; and
- (d) an entitlement to an input tax credit mentioned in column 5 for the item.

“Maximum Motorcycle Premium” is the maximum premium an insurer can charge for a 12 month policy to motorcyclists (MAI premium classes 9A, 9B, 9C and 9D). The Maximum Motorcycle Premium may vary by MAI premium class and insurer.

“Motorcycle Premium Loading” (MCPL) means an amount payable by the insurer of a motor vehicle that is not a motorcycle in order to fund the aggregate amount of MCPS.

“Estimated Motorcycle Premium Loading” (MCPLE) means the estimated amount of MCPL.

“Motorcycle Premium Support” (MCPS) means an amount payable to the insurer of a motorcycle (MAI premium classes 9A, 9B, 9C and 9D) in addition to the customer premium.

“Motorcycle support arrangement” means the arrangement to maintain the affordability of premiums for registered operators of motorcycles, as set out in section 4 of this guideline.

“Nil ITC” policyholder means a policyholder who is ineligible to claim Input Tax Credit in respect of the premium paid for a MAI policy as defined in the MAI framework.

“Nil ITC premium” means a MAI premium for which there is no entitlement to claim an Input Tax Credit.

“Notice of Claim” means a Common Law claim under the MAI Act for common law damages.

“Partial filing” means a non-de novo filing.

“Risk premium” means an amount that reflects the insurer’s central estimate of the projected cost of motor accident claims across all vehicles in the insurer’s portfolio expressed on a per policy basis.

“Trader’s plate” has the same meaning as it has in the *Road Transport (Vehicle Registration) Act 1999*.

2. Guiding Principles

The primary objects as per section 6 of the Act, and functions of the MAI Commission as per section 25 of the Act relating to the Premium Guidelines are to:

- provide frameworks that allow competition in setting premiums for motor accident injury insurance;
- keep the costs of motor accident injury insurance at an affordable level;
- ensure that premiums fully fund the present and likely future liability but are not excessive; and
- approve or reject MAI premiums and make guidelines in relation to premiums.

The Premium Guidelines are intended to be flexible, allowing insurers to largely treat expenses in the way they see fit, so long as the treatment chosen is justified and does not undermine the full funding of the MAI scheme. For premiums filed by the insurer, the primary concern of the MAI Commission is to ensure that premiums meet the fully funded test (are not too low) and are not excessive (are not too high).

The ACT MAI Commission encourages competition and innovation in MAI insurance products to deliver affordability benefits to the motorists who are required by law to purchase MAI insurance while not compromising the sustainability of the scheme with the full funding of premiums.

All insurers have business plans, incorporating marketing approaches that emphasise differing strategies based on the aims and strengths of each insurer. Consistent with the Premium Guidelines which accommodate the varying approaches to pricing and benefits offered, the MAI Commission recognises the importance of marketing strategies to the price offered on products provided by the insurers.

In this context, marketing information is sought from insurers in support of the premium filings (which are technical / actuarially based), including:

- business plans (relevant sections, and in particular, the marketing component) and short-term growth strategies;
- pricing and market share relativities; and
- in response to competitors.

Insurers may use information prepared as part of their annual Business Plan to complement the above information.

3. Determination of premiums

3.1 Premium Classifications

Schedule 1, Part 1.2, [Motor Accident Injuries \(Premiums and Administration\) Regulation 2019](#), provides the MAI premium classes for vehicles.

3.2 Premium Relativities

The insurer will provide a relativity against the base premium for each kind of motor vehicle or trader's plate on an Excel spreadsheet, along with the premium amount at 0% ITC. The relativity will be the same for Nil ITC and ITC entitled within the same classification.

The premium for each kind of motor vehicle or trader's plate is determined by multiplying the *insurer's base premium* by the relativity rating for the particular kind of vehicle or trader's plate.

The MAI Commission will provide a template spreadsheet for insurers to complete and provide as part of any premium filing.

3.3 Risk Premium

For a policy to be issued under the MAI framework, the *de novo* premium filing report should identify the estimated insurer average risk premium. The insurer risk premium is an amount that reflects the insurer's central estimate of the projected cost of motor accident claims across all vehicles in the insurer's portfolio expressed on a per policy basis.

3.4 Gross Premium

MAI Premiums will be determined on the basis of the full cost of the policies to the insurer for the underwriting period, and that determination will take account of, in addition to the estimated insurer risk premium, all expenses associated with the acquiring and administration of the policies including claims administration, net impact of MCPS and MCPL and reinsurance costs.

More detail on the expenses of acquiring and administering policies, which can be appropriately included in determining the full cost of the MAI business to the insurer is provided in Section 5.

3.5 Premium Loadings and Levies

The following range of loadings will be added to the insurer gross premium:

3.5.1 Loading to premiums to allow for entitlement of policyholder to an ITC

The insurer is required to provide two sets of 12month premiums:

- *Nil ITC premium* - will be determined in accordance with sections 3.1 and 3.2 of these guidelines; and

- *ITC premium rates* - will be the insurer's corresponding nil ITC premium increased by a loading. The loading will be determined having regard to the effect of policyholders' entitlement to claim an ITC on the insurer's entitlement to claim decreasing adjustments for claims costs attributable to those policyholders. The loading will be the same percentage for each vehicle classification.

3.5.2 Nominal Defendant Loading

Premium rates provided by the insurer on MAI policies of 12 months duration will include provision for the Nominal Defendant Loading (NDL) which is a GST exempt charge.

The NDL will be assessed prior to the commencement of the scheme and then on a financial yearly basis by the scheme actuary and published as a notifiable instrument.

An insurer will need to apply the most recently assessed NDL on a date specified by the MAI Commission.

3.5.3 Loadings on Short Term Premiums

Premiums for MAI policies with a duration of less than 12 months ('Short Term Premiums') will include the following loadings:

- Insurer's administration loading: \$2.50; and
- Insurer's lost investment income loading. The insurer's lost investment income loading will be assessed on a yearly basis by the scheme actuary. The loading will be determined by reference to yields on Government Bonds.

The Insurer's lost investment income loading will be assessed on a yearly basis by the scheme actuary and will be published as a notifiable instrument.

These loadings` do not need to be included by the insurer in the premium they provide – they will be applied to short term premiums by the rego.act system.

3.5.4 Motor Accident Levy

The Motor Accident (MA) Levy is payable by motorists when registering their vehicle to the MAI Commission and is collected by the road transport authority on behalf of the MAI Commission.

This levy is not part of premiums and does not need to be included by the insurer in the premium they provide – they will be applied by the rego.act system.

3.5.5 Motorcycle Loading and Subsidy

The insurer must include allowance for either the Motorcycle Premium Support (MCPS) or the Estimated Motorcycle Premium Loading (MCPL) in the gross premium for each MAI premium class. The insurer should reflect the expected net position in the Gross Premium (and Schedule B).

Insurers are required to include the MCPS and MCPL in the gross risk premium for MAI premium classes in the following manner:

- *MAI premium classes 9A, 9B, 9C and 9D* – will have the MCPS for their class subtracted from the gross risk premium;
- *MAI premium classes 19, 20 and 21* – no adjustment is required; and
- *All other MAI premium classes* – will have the MCPL added to the gross risk premium.

The MCPS and an estimated MCPL by *MAI premium class* will be determined on an annual basis by the scheme actuary (or as at a date as directed by the MAI Commission). The final MCPL by *MAI premium classes* will be calculated annually to ensure that the balance of the MCPS collected and MCPL paid across the year is zero, minimising distortion in the competitive market.

The MCPS and the estimated MCPL will be advised directly to insurers and will be published as a Notifiable Instrument. The final MCPL will be advised to insurers directly.

An insurer will need to apply the most recently assessed MCPS and estimated MCPL on or from a date advised by the MAI Commission.

3.6 Goods and Services Tax

The premiums provided by the insurer will be inclusive of the Goods and Service Tax (GST), except for the NDL.

3.7 Administration of MAI Premiums by rego.act system

3.7.1 Rounding of premiums

Premiums that are not whole dollar amounts must be rounded down to the nearest 10 cents.¹

3.7.2 Refunds by road transport authority

MAI refunds are calculated in accordance with the refund formula in section 15 of the *Road Transport (General) Regulation 2000*:

$$refund = \frac{days\ remaining}{days\ paid\ for} \times fee\ paid$$

'Days paid' for means the total number of days the subject of the refund was to be in force.

'Days remaining' means the number of whole days remaining of the days paid for.

¹ Section 13A, *Road Transport (General) Regulation 2000*, provides that the road transport authority may round the amount down. The premiums must be rounded down to avoid a calculation error when uploading premiums to rego.act.

'Fee paid' means the relevant amount paid in relation to the subject of the refund, less any non-refundable amount paid in relation to the subject of the refund or payable in relation to the refund.

If the amount of the refund is not a whole number of dollars, the amount must be rounded down to the next whole number of dollars (section 14(5), *Road Transport (General) Regulation 2000*).

3.8 Special Provisions during the Transitional Period

3.8.1 Premium Surplus

At the time the new MAI Scheme commences on 1 February 2020, a number of policy holders will have paid premiums for differing periods relating to both the current compulsory third-party (CTP) Scheme and the new MAI Scheme.

Section 601 of the MAI Act provides the MAI Commission with the authority to make decisions in relation to the amount of the premium surplus ('remaining premium') corresponding to the period remaining on the CTP policy, at the point in time the MAI Scheme commences.

Section 604 of the MAI Act provides that the remaining premium on a CTP policy will be deemed to be a premium under the MAI Scheme.

The premium surplus is the portion of premiums written that relates to the unexpired portion of the policy term. That is, at the time the MAI Scheme commences, insurers will be holding 'unearned premiums' on policies which have been priced on the current CTP Scheme benefit design basis, yet providing MAI Scheme benefits under a new pricing structure for the remaining policy term. Insurers will be required to return the premium surplus to policy holders to ensure there is no windfall gain.

The MAI Commission will advise insurers of the process for returning post 1 February 2020, the premium surplus to policy holders.

3.8.2 Risk Premium ('honeymoon effect')

Based on evidence from several other scheme reforms, the introduction of the new MAI Scheme arrangements can be expected to lead initially to reduced claims numbers, and concomitantly, reduced claims costs compared to the mature MAI Scheme. This is commonly known as the 'honeymoon effect' and will lead to a reduced risk premium.

Insurers must take into consideration the impact of the 'honeymoon effect' on projected claims frequency and motor accident claims costs for the MAI Scheme. The assumptions used should be outlined in the premium filing.

4. Motorcycle support arrangement

Compared to the previous Scheme, the MAI Scheme's extended no-fault coverage is expected to result in both significantly more claims and higher cost claims for motorcyclists. This is because motorcycles are involved in relatively more single

vehicle accidents than other vehicles, and motorcycle accidents give rise to a higher proportion of serious injuries compared to other vehicle types.

In transition to the new scheme the MAI Commission has determined (in line with stated government policy) that the premium paid to insure a motorcycle should not be higher than that paid under the existing scheme.

The motorcycle support arrangement will be reviewed as required and can be expected to change over time, for example, for inflation. The arrangement described in the remainder of this section will apply for the period 1 February 2020 to 31 January 2021.

4.1 Maximum premium for Motorcycles

For MAI premium classes 9A, 9B, 9C and 9D, the premium charged by an insurer to a registered motorcycle operator from 1 February 2020 may not be greater than the premium charged by the insurer to an equivalent motorcycle for a policy commencing on 31 January 2020.

The 'premium charged' for the purpose of this provision is the sum of the insurer gross premium (section 3.4), the Nominal Defendant Loading (section 3.5.2), the Motor Accident Levy (section 3.5.4) and GST (section 3.6).

4.2 MCPS and MCPL

The amounts of MCPS for each MAI motorcycle premium class (9A, 9B, 9C and 9D), in dollars per vehicle per annum, will be determined by the scheme actuary.

The estimated amount of MCPL (referred to as MCPLE) will be determined by the scheme actuary. Based on the settlement process set out in section 4.3, the final amount of MCPL may vary from MCPLE.

The calculation of the MCPS and MCPL will maintain the affordability of MAI premiums for the registered operators of motorcycles compared to existing CTP premiums and the sustainability of underwriting motorcycles for insurers.

The MCPS and MCPLE amounts for each MAI motorcycle premium class will be provided by the MAI Commission to insurers to be considered in premium filings.

4.3 Quarterly Settlement of MCPS and MCPL

At the end of each quarter (or as otherwise specified), each insurer shall submit a return to the MAI Commission, within 30 days of the end of the quarter, setting out the amounts of MCPS and MCPLE for transactions processed during the quarter (including cancellations).

The MAI Commission will analyse the returns and, within 30 days of receipt of the last correct return, will advise the insurers of the settlement amounts due. The settlement amounts due will be determined on a net settlement basis among insurers to minimise the dollar value of transfers needed.

Within 15 days of the MAI Commission advising the settlement amounts due, each insurer must (if relevant) pay the settlement amount to the other insurer(s) specified and advise the MAI Commission of the date and amount settled.

4.4 Annual Finalisation of MCPL

At the end of each fourth quarter (or as otherwise specified) the MAI Commission will adopt a reconciliation procedure to determine MCPL for the period since the previous annual finalisation.

MCPL will be determined by the MAI Commission as an amount per vehicle, such that the total of MCPL for the period is equal to the total of MCPS for the period.

The net settlement for that quarterly period will include an adjustment amount for the entire period so that transfers among insurers are based on MCPL rather than MCPL.

5. Policy Administration Expenses

MAI premiums will be determined on the basis of the full cost of the policies to the insurer, and that determination will take into account all expenses associated with the acquiring and administration of the policies including claims administration and reinsurance costs.

Policy administration expenses may include a proportion of the insurer's overhead expenses which is properly attributable to the MAI portfolio.

The primary concern of the Commission is to preserve and balance the dual objectives of ensuring that the MAI scheme remains fully funded and that MAI premiums are not excessive.

5.1 Commissions

In determining premiums, an insurer should include an allowance for commissions or other remuneration payable to the insurer's agent/s to the extent these costs are classified as a cost incurred in acquiring and or administering the business. In this regard commissions must be identified separately as a component of policy administration expenses in the premium filing, and the amount allowed for must not exceed 5% of the premium payable for policies.

5.2 ACT Government fees and charges

To be clear, policy administration expenses may include fees and charges levied or passed on by the ACT Government such as Access Canberra commissions and an insurer's share of bank fees charged to the Road User Services clearing account.

5.3 **Marginal costing**

Marginal costing must not be used in the determination of premiums or the expenses attributable to the MAI business.

5.4 **Deferral of costs**

When determining premiums, insurers will include the full cost of all expenses incurred in relation to the operation of the business. Acquisition costs may only be amortised if they are clearly non-recurring and provide an ongoing benefit to the insurer.

6. **Ancillary benefits**

The MAI Commission recognises that insurer marketing may include mechanisms such as after offer incentives (such as rebates, bundling discounts) to secure and maintain brand loyalty across an array of general insurance products. In this regard, an insurer is entitled to offer ancillary benefits in any way it sees fit so long as it complies with the MAI framework. The primary concern of the Commission is to ensure that the MAI scheme remains fully funded and that premiums are not excessive.

Where an insurer offers any ancillary benefit under a MAI policy, in addition to the statutory cover, the insurer must include the cost of that benefit in the premium determination where it is an expense that is properly attributable as a cost to be funded by the premium. In this regard, the Commission recognises that insurers may take different approaches to costing ancillary benefits. For instance, an insurer may take a portfolio approach to costing, attributing a portion of the cost of the ancillary benefit to the MAI policy costing with the remainder apportioned against another product within the insurer's portfolio.

Cross subsidy against the MAI portfolio is not permitted. It is not permissible for an insurer to grant a benefit (for example, a premium reduction) in relation to other insurance products and to include the cost of this benefit in the MAI premium costing. MAI insurance is a statutory obligation, mandatory for all registered motor vehicles, and it would be an unfair cost burden.

7. **Provision of information**

7.1 **Premium Filing Process**

In accordance with section 317(1) of the MAI Act, a licensed insurer must apply to the MAI Commission for approval of premiums at least once a year, or a longer period if the MAI Commission allows. The MAI Commission has adopted a streamlined filing framework which permits a combination of full *de novo* filings and partial filings.

The streamlined process, in general terms, provides insurers with a framework that:

- requires a full *de novo* premium filing at least once a year (or if permitted by the MAI Commission, a longer period);

- permits unlimited partial premium filings outside a pre-determined band (assessed by the scheme actuary);² and
- permits unlimited partial / streamlined (lower risk) premium filings within a pre-determined band (assessed by the scheme actuary), that are not subject to a detailed premium filing process.

7.1.1 De Novo filing

A *de novo* filing must occur at least once each calendar year and cover all premium classes (the MAI Commission may allow a longer period). For a *de novo* filing, an insurer should carefully consider any evidence, including assumptions and statistical data without reference to any previously approved premium filings, and submit a standalone application.

The insurer must also ensure that comprehensive evidence is provided to support any assumptions. For example, it is not adequate to refer to a *general rule* or trends unless the *general rule* or trend is supported by evidence and provided with the application. In determining proposed premiums, the insurer should consider both its own experience and industry experience. The insurer needs to articulate why the data selected is appropriate for estimating the proposed premiums.

The report should explain to what extent its own experience and industry experience have been used in setting both claim frequency and average claim size assumptions, including why the approach has been adopted and the reasons for any changes in the approach since the previous filing.

The insurer should also outline and substantiate, the relativities applied across vehicle classes.

Where an insurer wishes to adopt an assumption different from that recommended by its actuary, the insurer must provide a statement of the appropriateness of that assumption. In addition, a full analysis by the insurer's actuary is required of the impact on the estimated average premium, of adopting that assumption, compared with the assumption recommended by the insurer's actuary.

In response to a *de novo* premium filing report, the MAI Commission may:

- request the insurer provide further supporting evidence; or
- question the insurer to test the assumptions relied upon in their application.

For the avoidance of doubt, the MAI Commission is not required to do so prior to approving or rejecting the premium in accordance with section 318.

Where the MAI Commission has agreed to extend a premium filing beyond the normal one-year period (and no partial filing has occurred in the one-year period), an

² Assessed by the scheme actuary based on information supplied by the insurer in their premium filing, using updated information to justify changed premiums (as opposed to all information, including all evidence, assumptions and statistical data, being provided anew as in the case of a "*De novo*" filing).

assessment of whether the MAI premium still fully funds the present and likely future liabilities under the MAI scheme and whether the premium is excessive is required. An insurer should submit a partial filing.

No notice of a *de novo* filing is required upon the anniversary of the last *de novo* filing. If an insurer proposes a *de novo* filing instead of a partial filing during the year (which is discretionary), three weeks' notice to the MAI Commission is required to ensure the MAI Commission and the scheme actuary has capacity to consider the filing report.

7.1.2 Partial Filings

After the first *de novo* filing approved for an underwriting period, partial filings may be made by an insurer for any premium class. To set the band that will apply for a partial filing, the scheme actuary will determine during the assessment process of the *de novo* filing, that the 'proposed premium less x% provides full funding', and the 'proposed premium plus y% is not considered excessive'. This assessment will be provided to an insurer as part of the approval of a *de novo* filing.

An insurer must provide one week's notice prior to submitting a partial filing and advise the proposed type of partial filing – within the band or outside the band. The MAI Commission retains the discretion to seek a full *de novo* filing in the event an insurer proposes a partial filing only a few months before a full filing is nominally due. An insurer may also opt to bring forward their *de novo* filing if it is just before the 'annual' filing is due.

The option to file within the band may be suspended by the MAI Commission if there are unusual circumstances or a significant change with the MAI environment.

7.1.2.1 Partial Filing - Within the band

A 'within the band' filing is a streamlined premium filing based on the band that is stipulated by the scheme actuary. It may be for any vehicle class premium. The band is applicable to all vehicle classes so as not to limit, in dollar terms, the change in premium for a vehicle class with a higher relativity (compared to the base passenger vehicle class).

The minimum and maximum amount by which insurers can adjust the premium for any underwriting period / applicable financial year will be assessed by the scheme actuary as part of an expanded assessment process during the *de novo* premium filing.

When applying the band percentages to the MAI premium, dollar amounts will be rounded down to the nearest 10c.

The MAI Commission has determined that a minimum threshold of 0.5% of the relevant vehicle class MAI premium is required to meet the streamlined arrangements.

The diagram below shows a **worked example only** based on a notional premium.

| | | |
|---|-----------------------------------|--------------------------|
| | \$500 | (MAI Premium) |
| | ↙ ↘ | |
| | ± 4% | ± 0.5% (Permitted Band) |
| Proposed premium plus y% (not excessive) | max +4% \$520.00 | <-> to +0.5% \$502.50 |
| Proposed premium less x% (full funding) | min - 0.5% \$497.50 | <-> to - 4% \$480.00 |
| | Minimum threshold = 0.5% = \$2.50 | |

Whenever possible, small adjustments that may be below the minimum threshold (e.g. the NDL) should be included as part of a larger premium filing (to take it above the minimum threshold). However, there may be some circumstances where small adjustments may need to be made that affect all vehicle classes. These should be discussed and cleared with the MAI Commission prior to filing.

The band is cumulative for any underwriting period / applicable financial year. As an example, if the band was assessed to be +/- 0.5% to +/- 4%, an insurer could make a 1.5% reduction in its first streamlined filing, followed by an additional 2.25% reduction in its second streamlined filing – a total reduction of 3.75%.

Given proposed changes ‘within the band’ are applicable to small, low risk filings and are informed by the opinion of the scheme actuary, neither an actuarial certificate or actuarial assessment are required from insurers.

7.1.2.2 Partial Filing - Outside the band

Partial filings outside the band are to be assessed by the scheme actuary based on information supplied by the insurer in their premium filing.

The insurer is to provide updated information to justify changed premiums (as opposed to providing all information, including all evidence, assumptions and statistical data, anew as in the case of a “de novo” filing).

A supporting actuarial certificate and actuarial assessment is required from an insurer.

In response to a partial premium filing report, the MAI Commission may:

- request the insurer provide further supporting evidence; or
- question the insurer to test the assumptions relied upon in their application; or
- request the insurer to submit a full de novo filing.

For the avoidance of doubt, the MAI Commission is not required to do so prior to approving or rejecting the premium in accordance with section 318.

7.2 Premium filing process – timing

7.2.1 De novo / Full Filing

With regard to the timing of the full filing process, insurers are required to build into their scheduling a minimum 13week period from the date of application to the effective date of the premiums (assuming premiums are approved by the MAI Commission and no arbitration process is required). The timing allows for:

- Up to 20 business days (4 weeks) for the ACT scheme actuary to review the premium filing and the MAI Commission to approve the premiums;
- 15 business days (3 weeks) for the revision of fees to be tested prior to the updating of the rego.act system; and
- Six (6) week period for vehicle registration renewal notices with the updated premiums included.

7.2.2 Partial filing – Within the band

With regard to the timing of the partial filing process, a minimum 11 week period applies:

- Up to 10 business days (2 weeks) for the MAI Commission to review the premium filing for a within the band filing (the band having been set by the scheme actuary during a de novo review);
- 15 business days (3 weeks) for the revision of fees to be tested prior to the updating of the rego.act system; and
- Six (6) week period for vehicle registration renewal notices with the updated premiums included.

Note: To utilise the partial filing – within the band, an insurer must have a *de novo* filing reviewed, approved and the band set by the scheme actuary.

7.2.3 Partial filing – Outside the band

For a filing that is outside the band, a minimum 13-week period (the same as for a de novo / full filing) applies.

7.2.4 Notice periods

The notice periods are designed to facilitate early informal discussions between the insurer and the MAI Commission prior to the formal premium submission and the statutory mechanisms it triggers. The notice period should be used by the insurer to communicate key areas of concern and to work through any issues in relation to the submission with the MAI Commission. This process is designed to deliver more efficient reviews of premium filings.

7.3 Premium Filing Report – *de novo*

7.3.1 Full Report with detailed information

As a result of transitional arrangements in moving to the new MAI Scheme, sufficient information should be provided in the full report to enable the MAI Commission to form an objective appraisal of the allowances made for the changes in scheme structure effective 1 February 2020.

This *may* include details of transformations applied to existing data; additional data sources used; and the extent to which the insurer has been informed by information prepared by EY for the MAI Commission as part of the Scheme reform process.

A key part of the insurer's application is to provide a full report indicating the manner in which proposed premiums are advocated by the insurer, and the factors and assumptions taken into account. This *must* include:

- The estimated average risk premium. This is to be calculated as if policyholders are not entitled to any ITC. Explanations of how the estimated risk premiums were calculated must be provided with sufficient detail that a knowledgeable reader can reproduce its numerical reasoning. Key components that must be included are:
 - estimated past and projected future frequency of claims. This includes a separate analysis of Defined Benefits and Notice of Claims³ disaggregated into directly managed claims and the expected net effect (if any) of shared claims;⁴
 - projected future average claim size. This includes a separate analysis of average claim size for Defined Benefits and Notice of Claims, which should allow for estimated net effects of shared claims and be calculated as if no policyholders are entitled to ITC.;
 - an explanation of the allowance made (if any) in the above assumptions for the anticipated effects of the LTCS Act on the insurer's MAI portfolio; and
 - assumed future claim payment patterns (Defined Benefit and Notice of Claims) for the underwriting period covered by the filing (stipulate percentage paid by year, for both underwriting and accident years).
- Details of the economic assumptions being applied in the proposed premiums, including where relevant:
 - assumed discount rates applied to future cash flows;
 - assumed future investment earnings, how that assumption relates to the insurer's investment policy and how/if it is applied to the premium calculations;
 - assumed future rates of wage (specify basis AWE or other) and/or price inflation; and

³ A Notice of Claim is a Common Law claim.

⁴ Shared claims refers to the net effect of the inwards and outwards cash flows from shared liability claims between insurers. Claims sharing between insurers also includes those with the nominal defendant and interstate claims, where applicable.

- assumed future rates of superimposed inflation, reasons for selected assumptions and how they have been applied.
- Allowance for the expected net impact of the MCPL and MCPS.
- Proposed allowances for expenses, including:
 - past actual and estimated future acquisition, commission, overhead and policy handling expenses associated with the operation of the business;
 - past actual and estimated future claims handling expenses, including explanation of what is included in this item; and
 - details on ancillary benefits offered to attract business.
- Estimated future net cost of reinsurance, outlining the method used to calculate this cost and the split of the costs between proportional and non-proportional reinsurance.
- An explanation of how Input Tax Credits and Decreasing Adjustments applicable to the cost of claims have been taken into account,⁵ how the percentage loading to be applied to “ITC” policyholders to calculate the applicable rate was determined and the percentage loading.
- Proposed profit margin and the actuarial basis for its calculation - the percentage of gross premiums (excluding GST, Motor Accident Levy and Nominal Defendant Loading) intended to be retained as profit, before tax, in order to provide a reasonable rate of return on the capital supporting the business. An explanation of the following should be included:
 - the insurer’s actual or notional capital allocation and how it was determined, including the treatment of risk margins included in provisions for outstanding claims liabilities and unexpired risk liabilities;
 - the insurer’s target rate of return on capital and how it was determined;
 - the insurer’s actual investment policy and how this is related to the target rate of return on capital, and to the rates of future investment return assumed; and
 - details of the method used to calculate the proposed profit margin from the capital allocation, target rate of return on capital and rates of future investment return assumed.
- Discuss the approach used to derive the relativities between vehicle classes. Discuss any changes in the relativities compared to the previous filing.⁶
- Details of actual past business written (if any) and expected future number and mix of insured vehicles, including commentary on strategies that are expected to result in any changed mix of business.
- Tables showing how the assumptions regarding future experience in the current premium filing differ from the corresponding assumptions in the previous filing (if any) by the insurer;⁷

⁵ Input Tax Credit and Decreasing Adjustment Mechanism (DAM) as defined in the GST Act.

⁶ For the first filing under the Act this table does not require a comparison against the previous filing

⁷ For the first filing under the Act this table is not required

- Tables showing the changes in assumptions and the effect of those changes on the proposed premiums, including a reconciliation between the previous and proposed new base premium for a class 1 vehicle whose policyholder is not entitled to any ITC;⁸ and Any other matter the insurer should reasonably take into account in the determination of premiums.

In addition to, and to complement the above information, the following are also required to be completed:

- **Schedule B** — Table 1: a Premium Filing Summary Sheet; Table 2: Details of investment returns, inflation rates and payment patterns; and Table 3: Supplementary Table – further assumptions used in deriving target profit margin, is to be completed and provided as part of the de novo filing (template provided by MAI Commission).
- **Excel spreadsheet** — completed with all relativities and premiums in accordance with the Regulation, Schedule 1 (template provided by MAI Commission).

7.3.2 Other information – business plans (including marketing strategies and financial accounts)

In addition, for a de novo filing, each insurer is required to provide the MAI Commission with business related information relevant to the period of the premium filing as an attachment (**Schedule C**) to the premium filing *de novo* report.

This information will include:

- business plans and any targeted marketing strategies or growth strategies;
- distribution strategies;
- any responses to pricing and/or market share relativities of competition;
- details of the financial accounts of the MAI fund, including a comparison of budgeted expenses and revenues, and actual expenses and revenues for the previous filing period – including reasons for large variations; and
- detailed budget of expenses covering the proposed filing period.

The above expenses and revenues, where they have been included in the premium determination process, should be dissected into the following components:

- acquisition, overhead and policy administration costs;
- claims handling expenses;
- net reinsurance;
- commissions;
- ACT Government fees and charges;
- ancillary benefits, by type; and
- other expense types captured within the insurer's management accounts;
- investment revenue; and

⁸ For the first filing under the Act this table is not required.

- premiums underwritten.

7.4 Premium Filing Report – within the band

A partial filing within the band must include:

- a high-level summary of the changes in premiums and any changes in business strategy arising from the revised premiums;
- explanation for each individual assumption change; and
- commentary from an insurer of the estimated effect on the portfolio from the proposed premium(s) (eg. expectation with respect to market share).

An insurer is to provide a table of their approved *de novo* premiums with the proposed premium changes highlighted for easy review. The rego.act Excel spreadsheet should be provided in full.

With subsequent partial filings – within the band, the table will have the premiums as at the time of filing, with changes again highlighted. Although only a few premiums may change in a partial filing – within the band, the full premium table will assist to avoid errors arising from amending individual premium classes in documents.

8. Certification of Premiums

8.1 Actuarial Certificate – *de novo* and partial filings outside the band

The insurer will provide a certificate from a Fellow of the Institute of Actuaries of Australia indicating the extent to which the proposed premiums in aggregate meet the fully funded test in section 318 of the MAI Act.

The certificate should be provided by an actuary not in the employ of the insurer. The certificate needs to be a separate, self-standing item and not included as a comment in the body of the insurer’s actuarial report.

Note: “Employ of the insurer” – the actuary should not be in the direct employ or have an employment relationship with an insurer.

8.2 Insurer Certificate – *de novo* and partial filings outside the band

Each insurer will provide a certificate from the Chief Executive Officer, for the time being, of the insurer substantially in accordance with the certificate attached to these guidelines (**Schedule A**). This certificate should also be tabled at the next meeting of the insurer's Board of Directors.

8.3 Certificates for partial filings within the band

Filings within the band do not require a certificate as the band is set on advice from the scheme actuary as part of the assessment of the *de novo* filing.

CERTIFICATE OF THE CEO

I, _____ the CEO
(Name)

of _____
(Name of Insurer)

CERTIFY THAT

_____ has been duly
(Name of Actuary)

authorised by the Insurer to prepare or review a rate filing on behalf of

(Name of Insurer)

to be effective as of _____ until _____
(Date of implementation) (Date)

1. I have knowledge of the matters that are the subject of this certificate.
2. I am satisfied that the assumptions used are appropriate.
3. I have taken reasonable steps to satisfy myself that the information in the filing has been composed with due care and with regard to the insurer's financial security.
4. I am satisfied that the company's MAI business plan ensures MAI insurance is available to all proposers in accordance with the terms and conditions of the insurer's license and the MAI Premium Guidelines.

(Signature of CEO)

(Date)

PREMIUM FILING SUMMARY SHEET (Schedule B of the Premium Filing Guidelines)

Date of data used to perform analysis

dd/mm/yyyy to dd/mm/yyyy

Premium Underwriting Period (the period the premium filing is expected to cover):

dd/mm/yyyy to dd/mm/yyyy

Calculations at Nil ITC unless stated

Calculations Ex Nominal Defendant unless stated

Table 1

| | | |
|----------|--|----------|
| 1 | Claim Frequency Defined Benefits: | |
| (a) | Assumed claim frequency for insurer (i.e. managed claims) (A) | 0.**% |
| 2 | Average claim size Defined Benefit: | |
| (a) | Average claim size in dollar values at start of underwriting period for insurer (gross of reinsurance and excluding nominal defendant) (A)(B) (E) | \$**,*** |
| (b) | Average claim size fully inflated and discounted to middle of underwriting period (A)(B) (E) (using rates as specified in Table 2) | \$**,*** |
| 3 | Claim Frequency Common Law: | |
| (a) | Assumed claim frequency for insurer (A) | 0.**% |
| 4 | Average claim size Common Law: | |
| (a) | Average claim size in dollar values at start of underwriting period for insurer (gross of reinsurance and excluding nominal defendant) (A)(B) (E) | \$**,*** |
| (b) | Average claim size fully inflated and discounted to middle of underwriting period (A)(B) (E) (using rates as specified in Table 2) | \$**,*** |
| 5 | The net effect on the risk premium of shared claims (if any) | \$***.** |
| 6 | Insurer Average Risk Premium: | |
| (a) | Insurer average risk premium in dollar values at start of underwriting period for insurer (gross of reinsurance and excluding nominal defendant) (A)(B) Use formula: $1a*2a+3a*4a$ | \$***.** |
| (b) | Insurer average risk premium fully inflated and discounted to middle of underwriting period (gross of reinsurance and excluding nominal defendant) (A)(B) Use formula: $1a*2b+3a*4b$ | \$***.** |
| (c) | Impact of the Lifetime Care and Support Scheme on the risk premium (C) | \$***.** |

| | | |
|-----------|--|--------------------------------|
| 7 | Net impact of Motorcycle Premium Loading and Motorcycle Premium Support | |
| (a) | Net impact of the MCPS and MCPL expected to be collected | \$***.** |
| 8 | Acquisition and policy handling expenses: | |
| (a) | Acquisition, overheads and policy handling expenses (C) | \$***.** |
| (b) | Claims handling expenses (% insurer average risk premium) (C) | *.**% |
| 9 | Net cost of reinsurance loading (% gross premium) (C) | *.**% or \$***.** |
| 10 | Other assumptions (specify nature and value of assumption ie. for each assumption, state whether the assumption is set as a fixed cost per policy; a percentage of the risk premium; or a percentage of the average premium excluding GST and the NDL) (C) | *.**% |
| 11 | Profit margin (% premium excluding GST and Nominal Defendant) | *.**% |
| 12 | Gross Average premium (Nil ITC) as per Section 3.4: | |
| (a) | Gross Average premium (formula used to arrive at average premium excluding GST and Nominal Defendant Loading) | show formula used to calculate |
| (b) | Gross Average premium excluding GST on premiums | \$***.** |
| (c) | Gross Average premium including GST on premiums but before ND Loading | \$***.** |
| 13 | Class 1 analysis: | |
| (a) | Ratio Class 1 to average premium | *.** |
| (b) | Nil ITC Class 1 base premium excluding GST | \$***.** |
| (c) | Nil ITC Class 1 base premium including GST | \$***.** |
| 14 | Nominal Defendant: | |
| (a) | Nominal Defendant loading as percentage of premiums (excluding GST) | *.**% |
| (b) | Nominal Defendant – shared claims – net amount | \$***.** |
| | Final premium: | |
| (c) | Nil ITC Class 1 base premium including GST plus Nominal Defendant Loading | \$***.** |
| 15 | Loading applied to nil ITC premium rates to calculate 100% ITC premium rates (% nil ITC premium rates). This is rounded to two decimal places | *.**% |

Table 2**Details of investment returns, inflation rates and payment patterns**

| Year Ending | Investment Return (if single equivalent rate used, please state rate) | Inflation rate * | Inflation Superimposed | % Paid Year – underwriting year | % Paid Year – accident year |
|--------------|---|------------------|------------------------|---------------------------------|-----------------------------|
| <i>prior</i> | <i>from date of data to commencement of underwriting period (inflation/superimposed inflation only)</i> | | | | |
| 1 | | | | | |
| 2 | | | | | |
| 3 | | | | | |
| 4 | | | | | |
| 5 | | | | | |
| 6 | | | | | |
| 7 | | | | | |
| 8 | | | | | |
| 9 | | | | | |
| 10 | | | | | |
| 11 | | | | | |
| 12 | | | | | |
| 13 | | | | | |
| 14 | | | | | |
| 15 | | | | | |
| 16 | | | | | |
| thereafter | | | | | |

* Specify basis for inflation eg. AWE or other; and if single equivalent rate used, please state rate.

Notes:

- | | |
|-----|---|
| (A) | Claims to include those directly managed by insurer. Claims should exclude those shared with others |
| (B) | Estimates of average claim sizes and average premiums should be those applicable to the nil ITC premium rates, i.e. calculated as if no policyholders have any entitlement to an ITC, and so as if the insurer has a full entitlement to decreasing adjustments or ITC for all claims costs directly attributable to specific policies. |
| (C) | Express as, and advise, whether: |

- a fixed cost per policy; or
 - a percentage of the risk premium (before or after other adjustments); or
 - a percentage of the average premium excluding GST and the NDL.
-

(D) The Nominal Defendant Loading (NDL) is to be calculated in the following manner:

$$\text{Base Premium} = \text{MAI Premium} / (\text{GST}\% + 1 / (1 - \text{NDL}\%)).$$

$$\text{MAI Premium} = \$545.90$$

$$\text{Base Premium} = \$545.90 / (10\% + 1 / (1 - 4.5\%)) = \$475.89$$

$$\text{NDL} = \$475.89 / (1 - 4.5\%) - \$475.89 = \underline{\underline{\$22.42}}.$$

GST is not levied on the NDL

(E) Lifetime Care and Support Scheme (LTCSS):

Costings should make clear whether average size is before or after allowance for the LTCSS.

Table 3

Supplementary Table- further assumptions used in deriving target profit margin

| | |
|-----|--|
| 16 | Capital allocated this class of insurance business and basis of allocation (e.g. a multiple of the components of the APRA Prudential Capital Amount for the insurer attributable to this class of insurance business, or a percentage of premiums, or a percentage of outstanding claims liabilities) |
| 17 | Estimated risk margins for insurer for this class of insurance business, each expressed as a percentage of the corresponding central estimate: |
| (a) | Risk margin for outstanding claims liabilities intended to result in a provision having the minimum 75% probability of sufficiency required by APRA |
| (b) | Actual risk margin for outstanding claims liabilities adopted by insurer (equal to or more than item 17(a)) |
| (c) | Risk margin for premium liabilities intended to result in a provision having the minimum 75% probability of sufficiency required by APRA |
| (d) | Actual risk margin for premium liabilities adopted by insurer for purpose of accounting liability adequacy test |
| 18 | After-tax rate of return on capital for this class of insurance business: |
| (a) | Insurer's target rate of return |
| (b) | Expected rate of return implied by proposed profit margin – only required if differs from item 18 (a) (F) |
| 19 | Investment policy for assets supporting this class of insurance business (e.g. proportion expected to be invested in each category of assets) |
| 20 | Expected future rate(s) of pre-tax investment return assumed for each category of assets supporting this class of insurance business |
| 21 | Calculations used to derive the proposed profit margin (F)(G) |

Notes:

- (F) If the proposed profit margin implies an after-tax rate of return on capital which differs from the insurer's target rate in item 18(a), the expected after-tax rate of return implied by the proposed profit margin should be shown as item 18(b).
- (G) It is expected that these calculations will be supplied in an excel spreadsheet, with working formulae in spreadsheet cells. It is acceptable for items 16 to 21 inclusive also to be provided in the same spreadsheet, provided that the required information is presented in a form which is readily comprehensible to a knowledgeable recipient.

OTHER INFORMATION – BUSINESS PLANS (INCLUDING MARKETING STRATEGIES AND FINANCIAL ACCOUNTS)

>>>>> Insurer to attach business plans (including marketing strategies and financial accounts).