Australian Capital Territory

Road Transport (Third-Party Insurance) CTP Premium Guidelines 2015 (No 1)

Notifiable instrument NI2015–10

made under the

Road Transport (Third-Party Insurance) Act 2008, section 39 (CTP regulator may make CTP premium guidelines)

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1 Name of instrument

This instrument is the *Road Transport (Third-Party Insurance) CTP Premium Guidelines 2015 (No 1)*.

2 Commencement

This instrument commences on the day after its notification.

3 Guidelines

I make the guidelines at schedule 1 under section 39 of the *Road Transport (Third-Party Insurance) Act 2008*.

4 Effective date of this instrument for premium filings

The *Road Transport (Third-Party Insurance) CTP Premium Guidelines 2015 (No 1)*,with the exception of section 4.1 - Commissions, are effective for all premium filings for all third-party insurance policies submitted after the commencement date of this instrument.

Section 4.1 - Commissions, is effective on 1 July 2015.

5 Revocation

This instrument revokes notifiable instrument NI2013-285.

Karen Doran
Delegate of the CTP Regulator
6 January 2015

ACT CTP Regulator

CTP PREMIUM GUIDELINES

Section 39 of the *Road Transport (Third-Party Insurance)* Act 2008

1. PREAMBLE

1.1 The Road Transport (CTP Premium) Guidelines 2015 (No 1) form part of the mechanism for prudential regulation of compulsory third-party (CTP) insurance premiums under Part 2.6 of the *Road Transport (Third-Party Insurance)* Act 2008.

1.2 Definitions

Terms used in these guidelines have the same meanings that they have in the *Road Transport (Third-Party Insurance) Act 2008* ('the CTP Act') and the *Road Transport (Third-Party Insurance) Regulation 2008* ('the CTP Regulation').

"*APRA*" means the Australian Prudential Regulation Authority.

"*CTP Regulator Levy*" is a levy imposed pursuant to section 96 of the *Road Transport (General) Act 1999.*

The "*CTP framework*" is the CTP Act, the *Road Transport (General) Act 1999* and all associated subordinate laws.

"*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 GST and the Nominal Defendant Loading but excludes the CTP Regulator Levy.

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

"*ITC premium*" means a CTP premium for which there is an entitlement to claim an Input Tax Credit.

"*Nil ITC*" policyholder means a policyholder who is ineligible to claim any Input Tax Credit in respect of the premium paid for a CTP policy as defined in the CTP framework.

"*Nil ITC premium*" means a CTP premium for which there is no entitlement to claim an Input Tax Credit.

"*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 5A of the Act, and functions of the CTP Regulator as per section 14 A of the Act relating to the premium framework are to:

- promote competition in setting premiums for compulsory third-party insurance policies;
- keep the costs of insurance at an affordable level;
- ensure that premiums fully fund the present and likely future liability under the Act but are not excessive; and
- approve or reject CTP premiums and make guidelines in relation to premiums under this Act.

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

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

All insurers have marketing plans 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 CTP Regulator 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 and short term growth strategies;
- response to pricing and market share relativities and competitors.

3. Determination of premiums

3.1 Premium Classifications

The premium classification is determined by the kind of vehicle as described in the Premium Classifications (**Schedule B**). [1]

3.2 Premium Relativities

The insurer will provide a relativity against the base premium, for each kind of motor vehicle or trader's plate listed in Schedule B. The relativity will be the same for private and business use 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.

3.3 Risk Premium

For a policy to be issued under the *CTP framework*, the 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

CTP 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 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 CTP business to the insurer is provided in Section 4.

3.5 Premium Loadings

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

3.5.1 <u>Loading to premiums to allow for entitlement of policyholder to an ITC</u>

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

- *Nil ITC premium*- Will be determined in accordance with sections 1.2, 3.1 and 3.2 of these guidelines; and

[1] The Premium Classifications are consistent with the CTP Premium Classes listed in Schedule 1, Part 1.2 of the *Road Transport (Third-Party Insurance) Regulation 2008*.

- *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 CTP policies of 12 months duration will include provision for the Nominal Defendant loading.

The Nominal Defendant loading will be assessed on a yearly basis by the scheme actuary. The Nominal Defendant loading will be published yearly in the CTP Regulator's annual report and will apply for that next financial year.

3.5.3 CTP Regulator Levy

The CTP Regulator Levy is payable to the CTP Regulator in relation to premium amounts collected by the road transport authority on behalf of the CTP insurer under the CTP Act.

This loading does not need to be included by the insurer in the premium they provide – they will be applied by the rego.act system.

3.5.4 Loadings on Short Term Premiums

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

- Insurer's administration loading: $2.50.
- 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 percentage rate to be applied will be published yearly in the CTP Regulator's annual report and will apply for that next financial year.

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.

3.6 Goods and Services Tax

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

3.7.1 Administration of CTP Premiums by rego.act system

3.7.1 **Rounding of premiums**

In accordance with section 13A of the *Road Transport (General) Regulation 2000*, premiums that are not whole dollar amounts may be rounded down to the nearest 10 cents.

3.7.2 **Refunds by rego.act system**

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

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

In accordance with section 14 (5) of the *Road Transport (General) Regulation 2000*, 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.

'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.

4. Policy Administration Expenses

CTP 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 CTP portfolio.

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

4.1 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.

4.2 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 Canberra Connect commissions and an insurer's share of bank fees charged to the Road User Services clearing account.

4.3 Marginal costing

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

4.4 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.

5. Ancillary benefits

The CTP Regulator 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 as long as it complies with the CTP framework. The primary concern of the Regulator is to ensure that the CTP scheme remains fully funded and that premiums are not excessive.

Where an insurer offers any ancillary benefit under a CTP 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 Regulator 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 CTP policy costing with the remainder apportioned against another product within the insurer's portfolio.

Cross subsidy against the CTP portfolio is not permitted. This means that it is not permissible for an insurer to grant a benefit (for example, a premium reduction) in relation to other insurance products but to include the cost of this benefit in the CTP premium costing. This is due to the fact that CTP insurance is a statutory obligation, mandatory for all registered motor vehicles.

5.1 First Party Insurance

Where the cost of any first party insurance is charged to the insurer's CTP fund, that amount must be included in the premium determination and detailed in the premium filing.

The premium for first party driver at fault insurance, if material, will not be included with the CTP premiums in any returns or statistics submitted to the Territory and Municipal Services Directorate or the CTP Regulator. Any claim under such a policy will not be included in CTP claims information.

6. Certification of Premiums

6.1 Actuarial Certificate

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 43 of the CTP Act. The certificate should be provided by an actuary not in the employ of the insurer, and should be a separate item and not included as a comment in the body of the insurer's actuarial report.

6.2 Insurer Certificate

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.

7. Provision of information

7.1 Premium Filing Process

7.1.1 In accordance with section 40(1) of the CTP Act, a CTP insurer must apply to the CTP Regulator for approval of premiums at least once a year, or a longer period if the CTP Regulator allows.

7.1.2 In regard to the timing of the filing process, insurers are required to build into their scheduling a minimum 16 week period from the date of application to the effective date of the premiums (assuming premiums are approved by the CTP regulator and no arbitration process is required). The timing allows for:

- Up to 30 business days (6 weeks) for the ACT scheme actuary to review the premium filing and the CTP regulator to approve the premiums;
- 15 – 20 business days (4 weeks) for the revision of fees to be tested prior to the updating of the rego.act system; and
- Clients to be provided with a six week period for renewing their vehicle registration.

7.1.3 Each premium filing must be prepared by the insurer on a de novo basis. This means that 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.

7.1.4 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.

7.1.5 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.

7.1.6 In response to a premium filing report, the CTP Regulator 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 CTP Regulator is not required to do so prior to approving or rejecting the premium in accordance with section 41.

7.1.7 If an insurer wishes to submit more than one premium filing within a calendar year then they must give the CTP Regulator notice of their intention to file four (4) weeks prior to making the premium filing.

7.1.8 The notice period is designed to facilitate early informal discussions between the insurer and the CTP Regulator 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 CTP Regulator. This process is designed to deliver more efficient reviews of premium filings.

7.1.9 The four week notice period may be reduced with the express permission of the CTP Regulator. A reduction in the notice period will only be granted in exceptional circumstances.

7.1.10 The insurer may submit a partial filing when agreed with the CTP Regulator in cases where a full filing is not required. This may occur in cases when, for example, the

CTP Regulator has agreed to extend a premium filing beyond the normal one year period, but an assessment of whether the CTP premium still fully funds the present and likely future liabilities under the CTP scheme and whether the premium is excessive is required.

7.2 Premium Filing Report

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

- estimated past and projected future frequency of claims. This includes full claims as well as the likely net effect of shared claims, and a separate analysis of Motor Accident Notification Form claims
- projected future average claim size. Average claim size should allow for estimated net effects of shared claims and be calculated as if no policyholders are entitled to any ITC. It should be explained to what extent legal defence costs are included in average claim size;
- assumed future investment earnings and how that assumption relates to the insurer's investment policy;
- assumed future rates of wage and price inflation;
- assumed future rates of superimposed inflation;
- assumed future claim run-off pattern for the underwriting period covered by the filing;
- an explanation of the allowance made in the above assumptions for the anticipated effects of the LTCS Act on the insurer's CTP portfolio;
- estimated average risk premium calculated as if policyholders are not entitled to any ITC; including:
  - an explanation of how the estimated risk premium was calculated with sufficient detail that a knowledgeable reader can reproduce its numerical reasoning;
  - an explanation of how allowance was made for the enactment of the LTCS Act with the reduced entitlement to compensation under the CTP legislation;
- past actual and estimated future acquisition and policy handling expenses associated with the operation of the business and a description of the basis used to allocate overhead expenses;
- past actual and estimated future claims handling expenses, including explanation of what is included in this item (with particular reference to legal defence costs);
- estimated future net cost of reinsurance;
- an explanation of how Input Tax Credits and Decreasing Adjustments applicable to the cost of claims have been taken into account;

- Proposed profit margin and the actuarial basis for its calculation - the percentage of gross premiums (excluding GST, CTP Regulator 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.

7.2.2 Specifically, the insurer must also provide:

- 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;
- details of any ancillary benefits offered to attract business, including and separately identifying, the cost attributed to CTP policies (if any), the basis of such attribution, and details of any criteria applied;
- details of any commissions offered to attract business, including and separately identifying, the cost attributed to CTP policies (if any), the basis of such attribution, and details of any criteria applied;
- estimated required average premium to fully fund the insurer's liabilities calculated as if no policyholders have any entitlement to an ITC, in order for the Regulator to meet its obligations under section 43 of the Act;
- details of how the percentage loading applied to the nil ITC premium rates to obtain the ITC premium rates was determined;
- a suggested percentage loading to be applied to "ITC" policyholders to calculate the applicable premium rate;
- 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;
- 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; and

- any other matter the insurer should reasonably take into account in the determination of premiums.

7.2.3 **Schedule B** - the base premium including GST, for each vehicle classification for policyholders who are not entitled to any ITC.

7.2.4 **Schedule C** – Premium filing summary and Supplementary Table.

7.3 CTP marketing information

In addition to the full report above, each insurer is required to provide the CTP Regulator with information on its marketing plans relevant to the period of the premium filing. 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 CTP fund, including a comparison of budgeted expenses and actual expenses for the previous filing period – including reasons for large variations; and
- detailed budget of expenses covering the proposed filing period.

The above expenses, where they have been included in the premium determination process, should be dissected into the following components (if available at this level):

- acquisition and policy administration costs;
- commissions;
- ACT Government fees and charges;
- ancillary benefits, by type;
- First Party Insurance; and
- other expenses types captured within the insurer’s management accounts.

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 CTP business plan ensures CTP insurance is available to all proposers in accordance with the terms and conditions of the insurer's licence and the CTP Premium Guidelines.

___________________________ ____________________________
(Signature of CEO) (Date)

Premium Classifications – as per the CTP Premium Classes Schedule 1, Part 1.2 of the *Road Transport (Third-Party Insurance) Regulation 2008*

Reference to 2008 Regulations	**column 1** **Vehicle class #**	**column 2** **Type of motor vehicle**	**column 3** **case (if any)**	**column 4** **relativity**	**column 5** **0% ITC premium**
12.1 / 12.2	1	passenger vehicle		1.00	$***.**
7.1 / 7.2	3	goods vehicles up to 4500kg GVM	GVM up to 4.5t	*.**	$***.**
7.3 / 7.4	4	goods vehicles over 4500kg GVM	GVM exceeds 4.5t	*.**	$***.**
3.3 / 3.4	5A	bus or demand responsive service vehicle seating 17 or more (including driver)	vehicle has seating for more than 16 adults (including driver)	*.**	$***.**
3.1 / 3.2	5B	bus or demand responsive service vehicle seating 16 or less (including driver)	vehicle has seating for not more than 16 adults (including driver)	*.**	$***.**
15.1 / 15.2	6	taxi		*.**	$***.**
6.1 / 6.2	7	private hire car		*.**	$***.**
4.1 / 4.2	8	drive-yourself vehicle		*.**	$***.**
11.5 / 11.6	9A	motorcycle engine capacity over 600cc	engine capacity 601cc and above	*.**	$***.**
11.3 / 11.4	9B	motorcycle engine capacity over 300cc but not over 600cc	engine capacity between 301cc and 600cc	*.**	$***.**
11.1 / 11.2	9C	motorcycle engine capacity not over 300cc	engine capacity up to and including 300cc	*.**	$***.**
11.7 / 11.8	9D	motorcycle - electrically powered	electrically powered	*.**	$***.**
5.1 / 5.2	10	fire fighting vehicle		*.**	$***.**
17.1 / 17.2	11	undertaker's vehicle		*.**	$***.**
2.1 / 2.2	12	breakdown vehicle		*.**	$***.**
9.1 / 9.2	14	miscellaneous vehicle		*.**	$***.**
14.1 / 14.2	15	primary producer tractor		*.**	$***.**
10.1 / 10.2	16	mobile crane		*.**	$***.**
16.1 / 16.2	17, 18, 18D	traders plates motorbike, vehicle, other		*.**	$***.**
18.1 / 18.2	19	veteran vehicle		*.**	$***.**
19/1 / 19.2	20	vintage vehicle		*.**	$***.**
8.1 / 8.2	21	historic vehicle		*.**	$***.**
1.1 / 1.2	22	ambulance		*.**	$***.**
13.1 / 13.2	23	police vehicle		*.**	$***.**
20.1 / 20.2	24	any other vehicle	Must be registerable under the *Road Transport (Vehicle Registration) Act 1999*; and is not a vehicle mentioned in part 1.2, table.	*.**	$***.**

Notes * A trailer does not have to be separately insured (see Act, s 19 and s 60 to s 63), hence vehicle classes 13 and 18E have been omitted from this table..

PREMIUM FILING SUMMARY SHEET

1.	Assumed claim frequency for insurer (gross of sharing and nominal defendant)	0.**%
2.	Average claim size in dollar values at start of underwriting period for insurer (gross of reinsurance, gross of sharing and nominal defendant)(i)	$**,***
3.	Average claim size (from 2) including superimposed inflation(i)	$**,***
4.	Average claim size for filing period fully inflated and discounted(i)	$**,***
5.	Insurer average risk premium (formula used to combine above assumptions to arrive at average risk premium) (i)(ii)	
6.	Insurer average risk premium excluding GST calculation (substitute values in formula) (i)	$***.**
7.	Acquisition & policy handling expenses (% gross premium excluding GST and Nominal Defendant loading)	$***.** *.**%
8.	Claims handling expenses (% gross premium excluding GST and Nominal Defendant loading)	*.**%
9.	Net cost of reinsurance loading (% gross premium excluding GST and Nominal Defendant loading)	*.**%
10.	The net effect on the risk premium of sharing	$***.**
11.	Other assumptions (specify nature and value of assumption)	*.**%
12.	Profit margin (% gross premium excluding GST)	*.**%
13.	Average premium (formula used to arrive at average premium excluding GST)(ii)	
14.	Average premium including GST on premiums(i)	$***.**
15.	Ratio Class 1 to average premium	*.***
16.	Nil ITC Class 1 base premium including GST	$***.**
17.	Nil ITC Class 1 amount payable by policyholder including GST and Nominal Defendant loading	$***.**
18.	Loading applied to nil ITC premium rates to calculate 100% ITC premium rates (% nil ITC premium rates). This is rounded to two decimal places	*.**%
19.	Nominal Defendant loading as percentage of premiums excluding GST	*.**%
20.	Period premiums are to apply	

Year Ending	Investment Return	AWE	Inflation Superimposed	Payment Pattern Development Year	% Paid
****** **	%	%	%		%

Notes: (i) 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. The loading applied to nil ITC premium rates to calculate the insurer's some ITC premium rates is then shown as item 17.

(ii) Use item number for formula description.

Supplementary Table- further assumptions used in deriving target profit margin

21. 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)

22. 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 22(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

23. 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 23(a)(iv)

24. Investment policy for assets supporting this class of insurance business (e.g. proportion expected to be invested in each category of assets)

25. Expected future rate(s) of pre-tax investment return assumed for each category of assets supporting this class of insurance business

26. Calculations used to derive the proposed profit margin(iv)(v)

Notes

(iv) If the proposed profit margin implies an after-tax rate of return on capital which differs from the insurer's target rate in item 23(a), the expected after-tax rate of return implied by the proposed profit margin should be shown as item 23(b).

(v) It is expected that these calculations will be supplied in an excel spreadsheet, with working formulae in spreadsheet cells. It is acceptable for items 21 to 25 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.