Australian Capital Territory

Road Transport (Third-Party Insurance) CTP Premium Guidelines 2018 (No 1)

Notifiable instrument NI2018–376

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 2018 (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 Application to premium filings

The Guidelines apply to a filing submitted after the commencement of the instrument.

5 Revocation

The instrument, Road Transport (Third-Party Insurance) CTP Premium Guidelines 2015 (No 2) (NI 2015-623), is revoked.

Sue Vroombout
A/g CTP Regulator
10 July 2018

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 form part of the mechanism for the prudential regulation of compulsory third-party (CTP) insurance premiums under Part 2.6 of the *Road Transport (Third-Party Insurance) Act 2008* (the Act).

1.2 Definitions

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

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

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

"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 CTP regulator.

"*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 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.

"Partial filing" means a non-de novo filing.

"*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 14A of the Act relating to the Premium Guidelines 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 will fully fund the present and likely future liability but are not excessive (the tests); and
- approve or reject CTP premiums and set the framework / 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, 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 with 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;
- pricing and market share relativities; and
- in response to competitors.

3. Determination of premiums

3.1 Premium Classifications

Schedule 1, *Road Transport (Third-Party Insurance) Regulation 2008*, provides the CTP 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 (previously 'private') and ITC entitled (previously '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.

The CTP regulator 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 *CTP 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

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 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 CTP policies of 12 months duration will include provision for the Nominal Defendant Loading (NDL).

The NDL will be assessed on a yearly basis by the scheme actuary. The NDL will be published yearly in the CTP Regulator's annual report and will apply for the next financial year (the next financial year after the stated annual report financial year). The NDL is a GST exempt charge.

Example: In the 2016-17 Annual Report, usually tabled in September 2017, an NDL of x% for 2017-18 is published. An insurer will need to apply the NDL of x% for 2017-18 on a date advised by the CTP Regulator.

3.5.3 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 the next financial year (the next financial year after the stated annual report financial year).

  Example: In the 2016-17 Annual Report, usually tabled in September 2017, the loading of y% for 2017-18 is published. The loading of y% will apply for 2017-18 once the CTP regulator requests the loading to be updated in the rego.act system.

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 CTP Regulator Levy

The CTP Regulator Levy is payable to the CTP Regulator and is collected by the road transport authority on behalf of the CTP Regulator.

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.

3.6 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 CTP 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

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

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

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*).

'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

[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.

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 Access Canberra 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. 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 CTP premium costing. CTP insurance is a statutory obligation, mandatory for all registered motor vehicles, and it would be an unfair cost burden.

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 CTP Regulator or an ACT Government agency. Any claim under such a policy will not be included in CTP claims information.

6. Provision of information

6.1 Premium Filing Process

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. The CTP Regulator 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 CTP regulator, 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.

6.1.1 *De Novo* filing

A *de novo* filing must occur at least once each calendar year, and cover all premium classes (the CTP Regulator 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.

[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).

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 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.

Where the CTP Regulator 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 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. 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 CTP Regulator is required to ensure the CTP Regulator and the scheme actuary has capacity to consider the filing report.

6.1.2 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 CTP Regulator 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 is just before the 'annual' filing is due.

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

6.1.2.1 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 CTP premium, dollar amounts will be rounded down to the nearest 10c.

The CTP Regulator has determined that a minimum threshold of 0. 5% of the relevant vehicle class CTP premium is required to meet the streamlined arrangements. The diagram below shows a worked example based on a notional premium.

	$540		(CTP Premium)	
	± 4%	± 0.5%	(Permitted Band)	
Proposed premium plus y% (not excessive)		max +4% $561.60	<->	to +0.5% $542.70
Proposed premium less x% (full funding)		min – 0.5% $537.30	<->	to – 4% $518.40
		Minimum threshold = 0.5% = $2.70		

Whenever possible, small adjustments that may be below the minimum threshold (eg. 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 CTP Regulator 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.

6.1.2.2 <u>Partial Filing - Outside the band</u>

Partial filings <u>outside the band</u> 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 CTP Regulator 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 CTP Regulator is not required to do so prior to approving or rejecting the premium in accordance with section 41.

6.2 Premium filing process – timing

6.2.1 De novo / Full Filing

With regard to the timing of the full filing process, insurers are required to build into their scheduling a minimum 13 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 20 business days (4 weeks) for the ACT scheme actuary to review the premium filing and the CTP Regulator 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.

6.2.2 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 CTP Regulator 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.

6.2.3 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.

6.2.4 Notice periods

The notice periods are 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.

6.3 Premium Filing Report – *de novo*

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, [3] and a separate analysis of Motor Accident Notification Form / Motor Accident Medical Report claims; [4]
- 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 LTCS Act with the reduced entitlement to compensation under the CTP legislation;

[3] 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.

[4] A separate analysis of full and shared claims, as well as a separate analysis of Motor Accident Notification Form / Motor Accident Medical Report claims, is required in the premium filing.

- 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.

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.

Schedule B – a Premium Filing Summary Sheet, with Supplementary Table, is to be completed and provided as part of the de novo filing (template provided by CTP Regulator).

Excel spreadsheet completed with all relativities and premiums in accordance with the Regulation, Schedule 1 (template provided by CTP Regulator).

6.4 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.

6.5 CTP marketing information

In addition, for a de novo filing, 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 expense types captured within the insurer's management accounts.

7. Certification of Premiums

7.1 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 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.

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

7.2 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.

7.3 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 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 FILING SUMMARY SHEET

Premium Underwriting Period (the period the premium filing is expected to cover): dd/mm/yyyy to dd/mm/yyyy

1	**Claim Frequency:**	
(a)	Assumed claim frequency for insurer [gross of sharing and excluding MANF claims]: (i)	0.**%
(b)	The date data analysis is performed	dd/mm/yyyy
(c)	The cost per policy at the data date	$***.**
(d)	The cost per policy at the start of underwriting period	$***.**
2	**Average claim size:**	
(a)	Average claim size in dollar values at start of underwriting period for insurer (gross of reinsurance, gross of sharing and net of nominal defendant) (i) (ii)	$**,***
(b)	Average claim size from (2a) including non-superimposed inflation to dates of payment (ii)	$**,***
(c)	Average claim size (from 2a) including superimposed inflation (ii)	$**,***
(d)	Average claim size for filing period fully inflated and discounted (ii)	$**,***
3	**Analysis of MANF claims only:**	
(a)	Assumed MANF claim frequency for insurer	$***.**
(b)	Average MANF claim size in dollar value at start of underwriting period for insurer (gross of reinsurance, gross of sharing and net of nominal defendant)	$***.**
(c)	Impact of MANF claims on the risk premium (amount of the cost per policy)	$***.**
(d)	The MANF cost per policy at the data date	$***.**
(e)	The MANF cost per policy at the start of underwriting period	$***.**
(f)	MANF inflation and discount factor	*.**%
4	**Risk premium:**	
(a)	Date used for the calculation of claim costs for the risk premium (could be different to the start of the underwriting period)	dd/mm/yyyy
(b)	The inflation (including both normal and superimposed) used to shift the average cost from the first date of underwriting to the date used to calculate the risk premium	*.**%
5	**Insurer average risk premium:**	
(a)	Insurer average risk premium (formula used to combine above assumptions to arrive at average risk premium) (ii) (iii)	$***.**
(b)	Insurer average risk premium excluding GST calculation (substitute values in formula) (ii)	$***.**
(c)	Impact of the Lifetime Care and Support Scheme on the risk premium (v)	Optional see (v)
6	**Acquisition and policy handling expenses:**	
(a)	Acquisition and policy handling expenses (v)	Optional see (v)
(b)	Claims handling expenses (% gross premium) (iv)	*.**%
7	Net cost of reinsurance loading (% gross premium) (iv) (v)	Optional see (v)
8	The net effect on the risk premium of shared claims	$***.**
9	Other assumptions (specify nature and value of assumption) (v)	Optional see (v)
10	Profit margin (% gross premium) (iv)	*.**%
11	**Average premium:**	
(a)	Average premium (formula used to arrive at average premium excluding GST and Nominal Defendant Loading) (iii)	$***.**
(b)	Average premium excluding GST on premiums (ii)	$***.**
(c)	Average premium including GST on premiums (ii)	$***.**
12	**Class 1 analysis:**	

(a)	Ratio Class 1 to average premium	*.***
(b)	Nil ITC Class 1 base premium including GST	$***.**
(c)	Nil ITC Class 1 base premium including GST at last full filing	$***.**
(d)	Nil ITC Class 1 amount payable by policyholder including GST and Nominal Defendant Loading	$***.**
(e)	Nil ITC Class 1 amount payable by policyholder including GST and Nominal Defendant Loading at last full filing	$***.**
13	Loading applied to nil ITC premium rates to calculate 100% ITC premium rates (% nil ITC premium rates). This is rounded to two decimal places	*.**%
14	**Nominal Defendant:**	
(a)	Nominal Defendant loading as percentage of premiums (excluding GST) (vi)	*.**%
(b)	Nominal Defendant – shared claims – net amount	$***.**

Notes:

(i) Shared claims refers to the net effect of the inwards and outwards cash flows from shared liability claims between insurers. Claims sharing between insurers excludes those with the nominal defendant, as they are reported separately in item 14 (b).

(ii) 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 ITC premium rates is then shown as item 13.

(iii) Use item number for formula description.

(iv) Gross premium is the final premium that excludes GST and the Nominal Defendant Loading.

(v) Insurers have the option to provide this item using any of the approaches set out below (with the proviso that the method used for any item must be stated):

- 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.

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

NDL = Base CTP Premium/(1 - NDL) - Base CTP Premium, where the *Base CTP Premium* is the *CTP premium less GST and NDL* and is calculated as:

Base Premium = CTP Premium/(GST% + 1/(1- NDL%)).

For example, on a CTP premium of $545.90 with a GST of 10% and NDL of 4.5%, the calculation would be:

CTP Premium = $545.90

Base Premium = $545.90/(10% + 1/(1-4.5%)) = $475.89

NDL = $475.89/(1-4.5%) - $475.89 = **$22.42**.

Note: GST = $475.89 * 10% = $47.59

CTP premium = base premium + GST+ NDL = $475.89 + $47.59 + $22.42 = $545.90

Year Ending	Investment Return	AWE	Inflation Superimposed	Payment Pattern Development	% Paid Year – provide both underwriting and accident year
dd/mm/yyyy	%	%	%	%	%

Supplementary Table - further assumptions used in deriving target profit margin

15	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)
16	**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 16(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
17	**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 17 (a) [vii]
18	Investment policy for assets supporting this class of insurance business (e.g. proportion expected to be invested in each category of assets)
19	Expected future rate(s) of pre-tax investment return assumed for each category of assets supporting this class of insurance business
20	Calculations used to derive the proposed profit margin [vii] [viii]

Notes

(vii) If the proposed profit margin implies an after-tax rate of return on capital which differs from the insurer's target rate in item 17(a), the expected after-tax rate of return implied by the proposed profit margin should be shown as item 17 (b).

(viii) It is expected that these calculations will be supplied in an excel spreadsheet, with working formulae in spreadsheet cells. It is acceptable for items 15 to 20 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.