Australian Capital Territory

Road Transport (Third-Party Insurance) CTP Premium Guidelines 2013 (No 1)*

Notifiable instrument NI2013–285

made under the

Road Transport (Third-Party Insurance) Act 2008, section 39

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1 Name of instrument

This instrument is the *Road Transport (Third-Party Insurance) CTP Premium Guidelines 2013 (No 1)*.

2 Commencement

This instrument commences on the day after its notification.

3 Effective date of instrument for premium filings

The Guidelines are effective for premium filings submitted for all third-party insurance policies that the filing insurer proposes to be issued with a commencement date after these guidelines have commenced.

4 Revocation

All previous CTP Premium Guidelines are revoked.

5 Guidelines

I make the CTP Premium Guidelines under section 39 of the *Road Transport (Third-Party Insurance)* Act 2008.

Pam Davoren
Acting CTP Regulator
4 July 2013

*Name amended under Legislation Act, s 60

ACT Government

ACT CTP Regulator

CTP PREMIUM GUIDELINES

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

1. PREAMBLE

The Road Transport (CTP Premium) Guidelines 2013 (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.

2. DETERMINATION OF INSURANCE PREMIUMS

2.1 Premium Classifications

The premium classification is determined by the kind of vehicle as described in the Premium Classifications (**Schedule B**). Insurers will classify vehicles according to the most appropriate vehicle class.

2.2 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 insurer's premium for a class 1 vehicle whose policyholder is not entitled to any ITC and includes GST but excludes the CTP Regulator Levy. The insurer's base premium is used to define the allowable range of premiums in terms of the relative premiums for vehicle classifications and the loading which allows for policyholder entitlement to an ITC, as set out in these guidelines.

"*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*.

2.3 Premium Relativities

The insurer will provide a relativity for each kind of motor vehicle or trader's plate listed in the CTP premium classes in Schedule 1, Part 1.2 of the CTP Regulation. The relativity will be the same for private and business use within the same classification.

The base 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.

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

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

- *Nil ITC premium* rates- applicable to policyholders with no entitlement to any ITC for GST included in the premium. Nil ITC premium rates will be determined in accordance with sections 2.1 to 2.3 of these guidelines; and
- *ITC premium* rates- applicable to policyholders entitled to claim an ITC for at least some of the GST included in the premium. ITC premium rates will be the insurer's corresponding nil ITC premium rates 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.

2.5 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 estimated insurer average risk premium should be calculated as if policyholders have no entitlement to an ITC. The loading on premiums for policyholders who are entitled to an ITC should be determined separately.

The Premium Filing Report should include:

- an explanation of how the insurer average risk premium has been calculated; and
- sufficient detail that a knowledgeable reader can reproduce its numerical reasoning.

2.6 Nominal Defendant Loading

The Nominal Defendant loading is 3.3%.

Premium rates provided by the insurer on CTP policies of 12 months duration will include provision for the Nominal Defendant loading.

2.7 Loadings on Short Term Premiums

The following loadings apply to premiums on CTP policies with a duration of less than 12 months (‘Short Term Premiums’):

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

These loadings will be applied to short term premiums by the rego.act system in accordance with the formula in section 2.9.2 of these guidelines.

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 the average yield for medium term Australian Government Bonds for the financial year.

2.8 Goods and Services Tax

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

2.9 Calculation and rounding of premiums and refunds by rego.act system

2.9.1 The formula used by the rego.act system for calculating the CTP premiums applicable to a motor vehicle registration or a trader's plate is based on the following criteria:

a) The insurer's annual CTPI premium (0% ITC) including the 3.3% Nominal Defendant Loading and GST;

b) Class of motor vehicle; and

c) Duration of registration.

2.9.2 The formula for CTP premium calculation is:

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.

The Key to the CTPI calculation formula is:

(APR + (APR x (12-M) x LI*)) x ((1+ITC*) x (M/12)) + (AL* x (1 + ITC*))

The Key to the CTPI calculation formula is:

APR = Annual Premium rate for "Nil ITC" including GST
ITC = ITC Loading percentage
AL = Insurer's Administration Loading ($2.50)
LI = Insurer's Lost Investment Income Loading percentage (0.225% per month)
M = Number of Months (complete months and part thereof)
* means "if applicable".

2.10 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.

3. PROVISION OF INFORMATION

3.1 Premium Filing Report

3.1.1 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.

3.1.2 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.

3.1.3 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.

3.1.4 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 claim frequency;
- estimated 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;
- estimated average risk premium calculated as if policyholders are not entitled to any ITC;

- an explanation of how the estimated average risk premium was calculated with sufficient detail that a knowledgeable reader can reproduce its numerical reasoning;
- 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.

3.1.5 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;
- 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.

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

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

3.1.8 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.

3.1.9 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.

3.1.10 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.

3.1.11 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.

3.2 Expenses and ancillary benefits

3.2.1 Acquisition costs and marginal costing

Premiums will be determined on the basis of the full cost of the policies to the insurer, and that determination will take account of all costs to be funded by the premium including the proportion of the insurer's overhead expenses which is properly attributable to the policies. Marginal costing must not be used.

In this regard it is essential any payments made pursuant to Chapter 3 of the Act have been included in the premium submission proper.

Allowable acquisition costs also include the following fees and charges levied or passed on by the ACT Government:

Costs for transactions processed by Canberra Connect:

- Canberra Connect commission – $0.50 per policy.

Insurers' share of bank fees charged to Road User Services clearing account:

- It is proposed that the percentage applicable to each licensed insurer will be calculated monthly based on the number of transactions for which each licensed insurer and the ACT Government is responsible, counting each registration establishment or renewal as one transaction for the ACT Government and one transaction for the selected CTP provider.

3.2.2 Ancillary benefits

The Regulator recognises that insurer marketing includes such mechanisms as offering incentives to secure and maintain brand loyalty across an array of general insurance products. In this regard, the full cost of any ancillary benefits provided by the insurer under the CTP policy, in addition to the statutory cover, must be included in the CTP premium costing.

Cross subsidy 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.

An insurer is entitled to offer ancillary benefits in any way it sees fit so long as the CTP premium costing meets the fully funded test set out in section 43 of the CTP Act.

In addition, no ancillary benefit provided under the CTP policy which is dependent upon effecting another type of insurance policy with the insurer will be permitted prior to the commencement of competition in the ACT CTP market.

3.2.3 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 filing as an acquisition cost. 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.

3.2.4 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, provide an ongoing benefit to the insurer, and are not spread over more than two years.

3.3 Insurer Assumptions Differing from Actuary

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 the assumption used by the insurer and a full analysis by the insurer's actuary of the impact of the assumption adopted by the insurer on the insurer's estimated required and expected average premium (calculated as if no policyholders have any entitlement to an ITC), compared with the assumption recommended by the actuary.

3.4 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 an actuarial report.

3.5 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.

3.6 Agent's Commissions

Commissions payable, past or future, in whatever form to agents or other intermediaries are excluded from inclusion in costs applicable to premiums. No commission is allowed to be included in the determination of premiums.

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

column 1 class	column 2 kind of motor vehicle	column 3 case (if any)	column 4 relativity	column 5 0% ITC premium
1	passenger vehicle		1.00	$***.**
3	goods vehicle	GVM up to 4.5t	*.**	$***.**
3A	goods vehicle	tare 976-2000kg	*.**	$***.**
3B	goods vehicle	tare over 2t	*.**	$***.**
3C	goods vehicle	tare less than 976kg	*.**	$***.**
4	goods vehicle	GVM exceeds 4.5t	*.**	$***.**
4A	primary producer goods vehicle	tare less than 2t	*.**	$***.**
4B	primary producer goods vehicle	tare exceeds 2t	*.**	$***.**
5A	bus or demand responsive service vehicle	vehicle has seating for more than 16 adults (including driver)	*.**	$***.**
5B	bus or demand responsive service vehicle	vehicle has seating for not more than 16 adults (including driver)	*.**	$***.**
6	taxi		*.**	$***.**
7	private hire car		*.**	$***.**
8	drive-yourself vehicle		*.**	$***.**
9A	motorcycle	engine capacity over 600cc	*.**	$***.**
9B	motorcycle	engine capacity over 300cc but not over 600cc	*.**	$***.**
9C	motorcycle	engine capacity not over 300cc	*.**	$***.**
9D	motorcycle	electrically powered	*.**	$***.**
10	fire fighting vehicle		*.**	$***.**
11	undertaker's vehicle		*.**	$***.**
12	breakdown vehicle		*.**	$***.**
14	miscellaneous vehicle		*.**	$***.**
15	primary producer tractor		*.**	$***.**
16	mobile crane		*.**	$***.**
17	trader's 'C' plate		*.**	$***.**
18D	trader's 'D' plate		*.**	$***.**
19	veteran vehicle		*.**	$***.**
20	vintage vehicle		*.**	$***.**
21	historic vehicle		*.**	$***.**
22	ambulance		*.**	$***.**
23	police vehicle		*.**	$***.**
24	any other vehicle*		*.**	$***.**

Notes * Premium for any other vehicle (class 24) is the same as for a miscellaneous vehicle (class 14).

A trailer does not have to be separately insured (see Act, s 19 and s 60 to s 63).

Schedule C

PREMIUM FILING SUMMARY SHEET

1.	Assumed claim frequency for insurer (net of sharing and nominal defendant)	0.**%
2.	Average claim size in dollar values at start of underwriting period for insurer (gross of reinsurance, net 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)	*.**%
9.	Net cost of reinsurance loading (% gross premium excluding GST)	*.**%
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)	*.**%
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 (equal to or more than item 22(c))

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.