

Nominal Insurer Liability Valuation as at 30 June 2024

Background

Insurance & Care NSW (icare) commissioned Finity Consulting Pty Ltd (Finity) to estimate the insurance liabilities of the NSW Workers Compensation Nominal Insurer (NI) as at 30 June 2024. This document has been prepared by icare and summarises the results of Finity's independent actuarial assessment of the NI insurance liabilities.

The insurance liabilities of the NI include the future claim payments, which continue for the life of the injured worker in some cases, for all claims arising from accidents on or before 30 June 2024 as well as the expenses associated with administering the claims. They also include the expected claim costs that may arise from the policies written before the valuation date.

The purpose of an insurance liability valuation is to estimate the reserves required for balance sheet reporting. The estimates reflect the information available at a specific point in time, the valuation date, and the actuary's expectations across future experience, environmental drivers and economic conditions.

Liability estimates are inherently uncertain and can change as new information becomes available.

The Finity valuation has been prepared in accordance with the Actuaries Institute Professional Standard 302 'Valuations of General Insurance Claims' and Australian Accounting Standard AASB 1023 'General Insurance Contracts'.

Results

As at 30 June 2024, Finity has estimated the discounted net outstanding claims liability of the NI to be \$21,601m. This figure includes a 11% risk margin on top of the central estimate, which has been adopted to provide an estimated 75% probability that the combined liability estimate will prove to be sufficient. The components of the outstanding claims liability as at 30 June 2024 are set out in the following table.

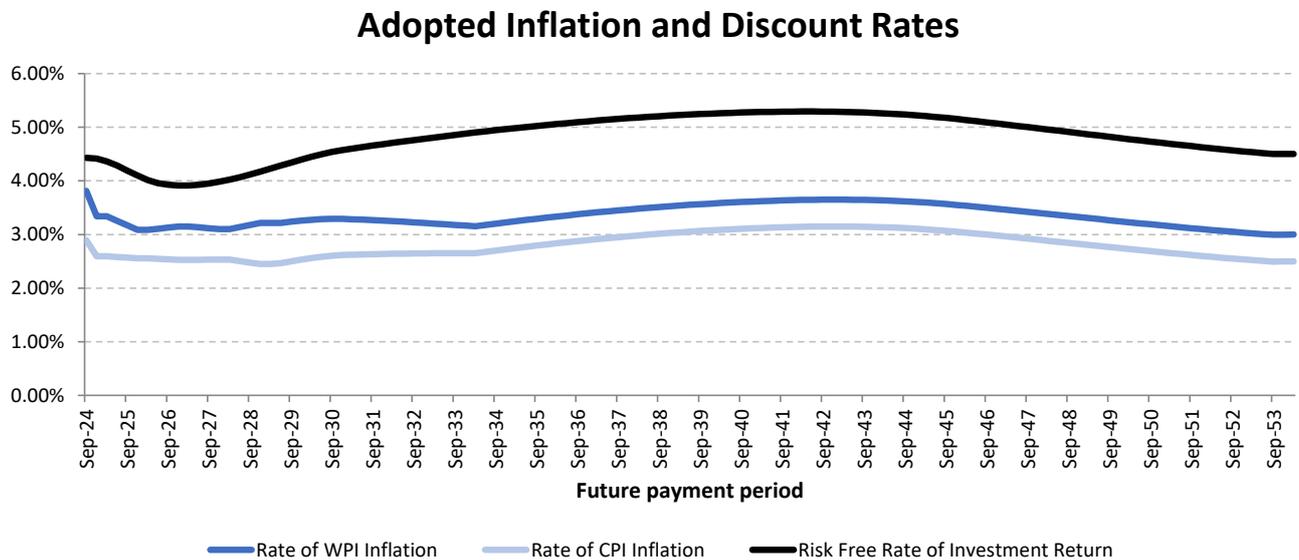
Table 1: Nominal Insurer outstanding claims liability as at 30 June 2024

Table 1: Outstanding claims liability	Discounted Liability Estimate (\$m's)
Weekly compensation	5,950
Medical benefits	5,690
Work injury damages	4,060
Section 66 and 67	999
Investigation costs	326
Legal costs	277
Rehabilitation benefits	293
Commutations	158
Death	150
Other	249
Asbestos	227
Uninsured employers	194
Direct COVID-19	32
Gross outstanding claims liability	18,605
Tax recoveries	108
Other recoveries	250
Uninsured employer recoveries	39
Net outstanding claims liability (excl. CHE)	18,208
Claims handling expenses (CHE)	1,253
Net outstanding claims liability (incl. CHE)	19,461
Risk margin (11.0%)	2,141
Total outstanding claims liability	21,601

The discount rates used by Finity in the assessment of the outstanding claims liability were taken from the yields on Commonwealth Government Bonds as at 30 June 2024 as per accounting standard AASB 1023. Future inflation rates were based on short-term economic forecasts (0 to 5 years), long-term assumptions on the gap between the discount rates and inflation rate at 10 years, very-long-term assumptions on the gap between the discount rates and inflation rates (30 years and beyond), and blending between the above approaches for 10 to 30 years.

The adopted rates for the June 2024 valuation are shown in the following figure.

Figure 1: Economic assumptions as at 30 June 2024



The mean term of the outstanding claims liability was estimated to be 12.9 years on an inflated and undiscounted basis and 7.1 years on an inflated and discounted basis.

Finity estimated the premium liability of the NI to be \$1,192m as at 30 June 2024. This figure includes a risk margin of 12.3% on the unexpired risk component, again with the intention of providing an estimated 75% probability that the unexpired risk liability estimate will prove to be sufficient.

The components of the premium liability as at 30 June 2024 are set out in the following table.

Table 2: Nominal Insurer premium liability as at 30 June 2024

Table 2: Premium liability	Liability Estimate (\$m's)
Central estimate of premium liability	1,061
Risk margin (12.3%)	131
Premium liability (75% PoA)	1,192

The premium liability is discounted using the same assumptions as the outstanding claims liability. This is a different basis to the NI pricing basis which includes no margin and allows for investment income that reflects the NI's invested assets. This difference in basis means that by accounting standards, the NI will always have a premium deficiency reserve.

The premium liability at 30 June 2024 is lower than the comparable figure at 31 December 2023 as a direct result of the seasonality effects of when NI policies are underwritten.

Movement in results

The following figure shows the movement in the total outstanding claims liability between 31 December 2023 and 30 June 2024 split by the key components of the change. The figures are inclusive of risk margins intended to deliver an 75% probability of adequacy.

Figure 2: Change in the outstanding claims liability (incl. risk margin)

	FY24 Accident s (\$m)	Prior Accident s (\$m)	Total (\$m)	Total (%)
			20,57	
Actual 31 Dec 23 Net Central Estimate as at 31 Dec 23	2,232	18,340	3	
Expected 30 Jun 24 Net Central Estimate as at 31 Dec 23	4,185	17,104	9	
Movements to 30 June 2024	153	159	312	1.5%
Change due to experience	-19	230	211	1.0%
Change due to actuarial assumptions	257	298	555	2.6%
Change due to inflation assumptions	5	102	108	0.5%
Change due to discount assumptions	-90	-471	-561	2.6%
Actual 30 Jun 24 Net Central Estimate as at 30 Jun 24	4,338	17,263	1	

Relative to Finity's expectations at 31 December 2023, the outstanding claims liability estimate at 30 June 2024 has increased by approximately \$312m, or 1.5%. The key drivers of the change were:

- \$211m increase due to claims experience, driven by more claims with a high Whole Person Impairment (WPI) remaining on benefit.
- \$555m increase from assumption changes.
 - \$325m from an increase in the expected ultimate number of high WPI claims with physical injuries.
 - \$131m from more psychological claim reports leading to an increase in the ultimate number of high WPI claims.
- \$454m decrease from revised economic assumptions, mainly due to a higher yield curve.

Uncertainties

Any estimate of insurance liabilities will contain elements of uncertainty. In the case of the NI these uncertainties are compounded by past benefit reforms, including but not limited to, the 2012 and 2015 reforms. The key uncertainties identified in the Finity valuation were:

- **Claims with higher WPIs:** The number of physical injury claims reaching a higher whole person impairment (WPI) over 15% has recently increased. These claims have significantly longer durations and higher cost associated with them. There is uncertainty over how many physical claims will have higher whole person impairment and therefore higher claims cost.
- **Medical payment amounts:** The average medical payment amounts have remained stable except for payments related to hearing loss, which have increased strongly in the past two years as claimants seeking more frequent services.
- **Psychological injury claims:** Claims related to psychological injuries tend to last longer and cost more. Their frequency has been on the rise over the past six months, and there is uncertainty about how many will exceed the 15% WPI threshold.
- **Return-To-Work and claims management:** While claims costs have been consistent in recent years, although higher than they were before 2017, the valuation relies on the continued use of Work Capacity for claims management. Changes to the arrangement and panel of CSPs could cause disruptions, although gradual transitions may help mitigate this risk. Actual return to work rates may differ from those assumed in the valuation.
- **WID conversions:** A high proportion of eligible claims are opting for a WID, and this trend has been increasing gradually. However, the actual conversion rates could vary, impacting both weekly and medical liabilities.
- **Economic uncertainty:** Because many benefits are paid out over a long time, changes in inflation rates and interest rates can make a big difference in how much money we need to have set aside. The current uncertain economic situation, especially with rising inflation globally, adds to the challenge of estimating the liabilities.

The above list is not exhaustive but does illustrate the uncertainty in the NI portfolio and the liability assessment process. Maintaining a sound capital position is essential to ensure the NI's ongoing delivery on its commitments to the workers and employers of NSW. That means managing and mitigating the uncertainty in the estimates where possible and holding sufficient funds to protect against potential fluctuations where it is not possible.