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Nominal Insurer Liability Valuation as at 31 December 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 31 December 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 31 December 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 31 December 2024, Finity has estimated the discounted net outstanding claims liability of the NI to be $23,448m. 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 31 December 2024 are set out in the following table.

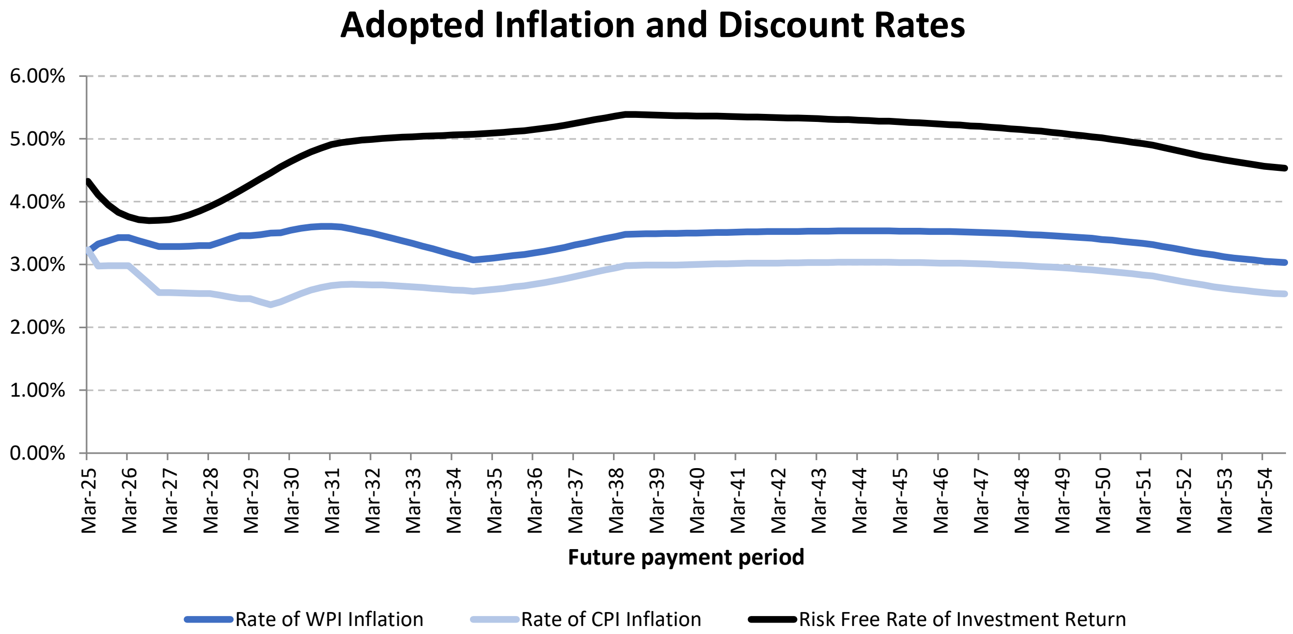
Table 1: Nominal Insurer outstanding claims liability as at 31 December 2024

Table 1: Outstanding claims liability	Discounted Liability Estimate ($m's)
Weekly compensation	6,654
Medical benefits	6,018
Work injury damages	4,436
Section 66 and 67	1,054
Investigation costs	362
Legal costs	301
Rehabilitation benefits	322
Commutations	167
Death	135
Other	271
Asbestos	233
Uninsured employers	202
Direct COVID-19	29
Gross outstanding claims liability	**20,185**
Tax recoveries	118
Other recoveries	257
Uninsured employer recoveries	41
Net outstanding claims liability (excl. CHE)	**19,768**
Claims handling expenses (CHE)	1,356
Net outstanding claims liability (incl. CHE)	**21,124**
Risk margin (11.0%)	2,324
Total outstanding claims liability	**23,448**

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 31 December 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 December 2024 valuation are shown in the following figure.

Figure 1: Economic assumptions as at 31 December 2024



The mean term of the outstanding claims liability was estimated to be 12.5 years on an inflated and undiscounted basis and 6.9 years on an inflated and discounted basis.

Finity estimated the premium liability of the NI to be $2,886m as at 31 December 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 31 December 2024 are set out in the following table.

Table 2: Nominal Insurer premium liability as at 31 December 2024

Table 2: Premium liability	Liability Estimate ($m’s)
Central estimate of premium liability	2,570
Risk margin (12.3%)	316
Premium liability (75% PoA)	**2,886**

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 31 December 2024 is higher than the comparable figure at 30 June 2024 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 30 June 2024 and 31 December 2024 split by the key components of the change. The figures are inclusive of risk margins intended to deliver an estimated 75% probability of adequacy.

Table 3: Change in the outstanding claims liability (incl. risk margin)

	FY25 Accidents ($m)	Prior Accidents ($m)	Total ($m)	Total (%)
Actual 31 Dec 24 Net Central Estimate as at 30 Jun 24	**-**	**21,601**	**21,601**	
Expected 31 Dec 24 Net Central Estimate as at 30 Jun 24	**2,511**	**19,966**	**22,477**	
Movements to 31 December 2024	**131**	**841**	**971**	**4.3%**
Change due to experience	-31	275	243	1.1%
Change due to actuarial assumptions	148	450	598	2.7%
Change due to inflation assumptions	12	148	160	0.7%
Change due to discount assumptions	2	-32	-30	-0.1%
Actual 31 Dec 24 Net Central Estimate as at 31 Dec 24	**2,641**	**20,807**	**23,448**	

Relative to Finity's expectations at 30 June 2024, the outstanding claims liability estimate at 31 December 2024 has increased by approximately $971m, or 4.3%. The key drivers of the change were:

- $243m increase due to claims experiences,
  - $124m increase driven by revised wages projection, which implies higher future claim costs,
  - $115m due to more claims on weekly and medical benefits,
  - $49m increase driven by more claims with a high Whole Person Impairment (WPI).
- $598m increase from actuarial assumption changes.
  - $86m increase due to an increase in the expected ultimate number of WPI 15%+ claims with physical injuries, as a result of deterioration observed in older accident years.
  - $182m increase due to an increase in expected WPI 15%+ claims with psychological injuries, as a result of a significant increase in total psychological injury claims lodged during 2023 and 2024.
  - $57m increase due to an increase in the projected WPI 0-10% claims with psychological injuries on benefits in the recent accident years.

  - $236m increase due to average Weekly benefits increasing by more than indexation.
  - $99m increase due to Medical costs increasing more quickly than inflation.
- $61m reduction from other changes. $130m increase from revised economic assumptions, mainly due to higher inflation.

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 and psychological injury claims reaching a higher whole person impairment (WPI) over 15% has increased. These claims have significantly longer durations and higher cost associated with them. There is uncertainty over how many 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 seek 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's 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.