Insurance and Care NSW

Pricing Policy

V04 – August 2022

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1 Purpose

Pricing is one of the key levers for financial strength and long-term sustainability of icare's schemes. This is key responsibility of icare in managing its schemes.

This Policy outlines responsibilities, principles and the philosophy for pricing decisions at icare.

2 Scope

This policy applies to Nominal Insurer (NI), Home Building Construction Fund (HBCF), Lifetime Care Scheme (LTCS), Dust Disease Care (DDC), and CTP Care in determining pricing and levies for these schemes.

References to 'Premium(s)' are to be read as 'Premium(s)' or 'Contributions' or 'Levy(ies)' as appropriate for the scheme.

References to 'Pricing' are to be read as 'Pricing' or 'Contribution setting', or 'Levy Setting', as appropriate for the scheme.

3 Principles

The principles for Pricing at icare are described below:

3.1 Pricing obligations

Pricing for icare's schemes must comply with all relevant legislation, regulations, regulatory guidelines, and government policies.

3.2 Pricing Components

Pricing must allow for:

- Expected claims cost (risk premium) – this should reflect the actuarial central estimate of the claims cost at the time of the pricing work, including expected future inflation in the period to claim finalisation;
- Expenses to cover the operations of the scheme including underwriting expenses, project spend, and a claims handling allowance for managing the claims incurred in the pricing period to finalisation; and
- Future investment income – reflected through the discounting of the expected future cashflows where the discount rate should align with the TCorp investment return objectives.

This forms the operational breakeven premium (OBEP), the amount required to achieve a breakeven result for the underwriting year. Pricing also should consider the need for a sustainability margin. This is discussed below.

The Dust Diseases Scheme is on a Pay As You Go basis as per its legislation and as such the levy must be set to cover the above for the coming levy year only.

3.3 Inclusion of a margin

Given the uncertain outcomes of insurance risk, pricing without a margin only has 50% chance of the pricing being sufficient in covering the claims cost and expenses incurred for the pricing period.

The inclusion of a sustainability margin is intended to improve financial sustainability and allow the schemes to better withstand adverse shocks. There are a number of factors that must be taken into consideration when determining a sustainability margin:

- What sustainability margin is required to meet the requirements of the Capital Management Policy and/or the financial objectives of the schemes;
- Underlying uncertainty in the estimation of future claims costs;
- Cost of the scheme and its affordability to icare's customers; and
- Emerging financial risks that may impact the scheme's financial position.

The sustainability margin is separate from any risk margin that some schemes include in their balance sheet liabilities.

The Dust Diseases Scheme is on a Pay As You Go basis with no margin as per its legislation.

3.4 Risk Based Pricing and Pooling

Where sufficient credibility exists, premium rates charged should be reflective of the underlying risk being priced. Depending on the level of credibility in the experience of a particular risk unit or group of risks, the reflection of risk will range from none (priced under insurance pooling models) to being fully reflective of the risk. For some risk units (such as some NI policies) this may involve the use of an experience rating formula.

By its very nature insurance necessitates a pooling of like risks. This is in balance to risk-based pricing. The balance between the two is achieved through the credibility of the past data indicating risk differentiation.

In addition to the above, consideration should be given to fairness and social acceptance of risk-based pricing depending on the nature of the scheme. It may be appropriate to consider a community-rating approach in some schemes.

3.5 Limit Excess Volatility

Pricing should be set such that volatility in premium rate, both at the aggregate level and the customer level is not excessive. Changes may be phased over time to reduce volatility. This will ultimately be a judgement considering the extent of any movements and the strain any delay in making the changes puts on the pricing system.

For schemes where pricing is done at the individual policy level, the pricing analysis must assess the impacts at the individual policy and/or customer level and where there is excessive volatility, implement a capping and cupping strategy to limit the pricing volatility.

When the price increase required to meet the pricing requirement of an operational breakeven price plus sustainability margin is deemed too volatile for icare's customers, a plan of more gradual pricing increases up to three years should be adopted. This is to limit the pricing volatility but also to reach financial sustainable pricing levels within a reasonable timeframe. For schemes with a Capital Management Policy, the plan for gradual pricing increases will be developed in line with the Capital Management Policy.

Any reason for not being able to set the price at the required level of an operational breakeven price plus sustainability margin must be explicitly stated and approved by the Board.

3.6 Simple and Transparent

The commercial premium model for icare's customers should be easy to understand. The rating structure should as simple as practical and be applied with transparency.

Risk based pricing models can be complex to capture the key underlying drivers of claims cost. Conversion to the commercial premium model may be required to achieve simple and transparent pricing for icare's customers. The commercial model must ensure that the key risk differentiation is retained as much as practicable.

3.7 Monitoring and Reporting

Monitoring of the premiums being received will form part of the regular reporting. If material variations occur from the pricing basis the quantum and key drivers will be determined, and a decision will be made about whether to reassess the pricing basis.

The Financial Condition Report (FCR), prepared annually by the Chief Actuary, will include a summary of the actual past and expected future premium and their relativity to target. The FCR is provided to the Board annually.

4 Contact

The Chief Actuary is the point of contact for matters arising from this Policy.

5 Roles and responsibilities

Role	Responsibilities
Board	Ultimate responsibility for prudent financial management of the Scheme rests with icare's Board of Directors. As such, the Board owns and approves the Pricing Policy. The Board should: • Review and approve the Pricing Policy biennially. • Receive any escalation of material matters from RC and take appropriate action.
Risk Committee (RC)	icare's RC oversees the implementation of the Pricing Policy. The RC should: • Review and endorse the Pricing Policy for approval by the Board biennially. • Escalate material matters relating to Pricing to the Board as necessary.
icare Asset and Liability Committee (ALCO)	The icare ALCO is responsible for advising the compliance of the Scheme's Pricing with the Pricing Policy, prior to seeking endorsement from the RC and approval from the Board.
Group Executive (relevant scheme)	The Board and RC delegate responsibility to the Group Executive (relevant scheme) for implementing the Pricing Policy. The Group Executive (relevant scheme) has responsibility for: • the operational aspects of the Pricing decision • the development of strategies consistent with the Pricing Policy • reviewing the Pricing Policy biennially to ensure its continuing relevance to the Scheme

Chief Actuary	The Chief Actuary owns the technical modelling which informs the Pricing decision including: • The technical operational breakeven premium required, and • The impacts of pricing decisions on the projected scheme's financial position. Changes to the Pricing Policy are prepared by the Chief Actuary, endorsed by the icare ALCO and RC, and approved by the Board.
Group Executive Risk and Governance	The Group Executive Risk and Governance is responsible for second line review, challenge and assurance for compliance with the Pricing Policy and escalation to the RC as appropriate. The Group Executive Risk and Governance is also responsible for raising any material risks which may impact the Pricing Policy.

6 Version Control and Document History

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