

Motor Accident Guidelines – Premiums refund

Determination of amount of unearned premium surplus to be refunded for third-party policies effective between 1 December 2016 and 30 November 2017

Clause 2(3A) and 5(b) of Schedule 4 of the *Motor Accident Injuries Act 2017*

**Approved by the
Board of the State
Insurance
Regulatory
Authority**

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1. Introduction

These guidelines are made under clauses 2(3A) and 5(b) of Schedule 4 of the Motor Accident Injuries Act 2017 (the Act). They provide for the method of calculating unearned premium surplus and the arrangements for its refund. The unearned premium surplus is to be refunded to 'eligible policy holders'.

2. Definitions

The definitions in s1.4 and Schedule 4 of the Act apply to these guidelines.

Other definitions in these guidelines are as follows:

Administration costs: means the total maximum amount (before GST) that may be deducted from each policyholder's Gross Refund being:

(a) Insurer Administrative Cost of \$1.00 (before GST)

(b) Service NSW Administrative Cost of \$7.87.

Current Scheme Adjusted Average Premium: means the average premium charged to vehicle owners during the relevant period, less 'Deductible Insurer Expenses', 'Levies' and GST applicable on the policy.

Deductible Insurer Expenses: means the cost to the insurer of selling a policy. This item relates to the percentage Policy Acquisition Expenses and Commission filed as per items 6 and 7 in Schedule C of Part 1 - Premium Determination Guidelines of the Motor Accident Guidelines 2017.

Gross Refund: means the refund amount (before GST) calculated by insurers in accordance with these Guidelines before deducting Administration Costs and before the application of the minimum refund entitlement threshold.

Net Refund: means the gross refund amount less the insurer's Administrative Costs.

Insurer: means a Licensed Insurer, which is a person who is licensed under the Part 9 Division 9.1 of the MAI Act 2017.

Minimum Refund Entitlement: \$10.00 (inclusive of GST).

Vehicle Owner Refund: means the Net Refund less the Service NSW Administration Costs and after the application of the minimum refund entitlement threshold.

3. Eligible policyholders

To be an eligible policyholder, the person must be:

- the registered vehicle owner as at 11:59pm on 30 November 2017 and holding a valid CTP policy which commenced on or after 1 December 2016 and which was current on 1 December 2017, irrespective of whether the vehicle has changed ownership since the inception of the policy. On 31 March 2018, insurers will provide the Authority and SNSW with updated vehicle ownership data to allow for any late paid registrations
- be classified by the Roads and Maritime Services (RMS) as customer type Organisation (“O”) or Person (“P”) as at 11:59pm on 30 November 2017 and based on RMS data as sent to insurers on 9 December 2017.

The following are not eligible policy holders:

- motorcycle policy holders are not eligible for a refund because the entitlement to refund is limited to the holders of policies to which unearned premium surplus is attributable
- policyholders classified by the RMS as customer type Incomplete (“I”) or Supressed (“S”)
- policyholders for vehicle classes 10D, 10E, 10F, 10G and 10H (all classes and zones).

4. Arrangements for the administration by the refund

- (a) The insurers will correctly identify all eligible policyholders and calculate the Gross Refunds.
- (b) The insurer will forward the total Net Refunds to the Authority.
- (c) The Authority will use the services and staff of Service NSW to administer the refunds to eligible policyholders.
- (d) The Authority will provide the Net Refunds to Service NSW on a monthly basis, following receipt of an invoice on the tenth business day of each following month.
- (e) Service NSW (on behalf the Authority) may deduct an administrative cost of \$7.87 (including GST) from each policy for the administrative costs of corresponding with policyholders, postage, answering enquiries, developing systems for the administration of the refunds, establishing accounts and processing the refunds.
- (f) After administrative costs are deducted, Service NSW will apply the minimum refund entitlement threshold of \$10.00 (including GST) costs. No premium refund will be payable to an eligible policyholder where the amount of the refund, after deducting the insurer and Service NSW administration costs, is less than the minimum refund entitlement threshold of \$10.00.
- (g) The Authority will apply the amounts below the minimum refund entitlement threshold for the purpose of a reduction in the Fund Levies payable for policies issued during the transition period.

5. Timeframe for administering the refunds

Due date	Who is responsible?	Description
14 December 2017	Insurers	Calculate the Gross and Net Refund amounts
14 December 2017	Insurers	Provide a data file to the Authority containing the name, address, vehicle details and premium refund due of all eligible policyholders
15 December 2017	Service NSW	Consolidate a list of eligible policyholders and their vehicle owner refunds
16 December 2017	Service NSW	Sort data file in descending order by refund amount
19 January 2018	Service NSW	Refunds to business customers and taxis processed
19 January 2018 onwards	Service NSW	Weekly reporting of uptake on refund claims, funds paid and numbers by business and individual by channel to the Authority
12-28 February 2018	Service NSW	Targeted metro and/or regional individual Proof of Concept (POC) to 100,000 to test processes, technology and provide channel volume/demand insights
19 March to 18 June 2018	Service NSW	Commence emailing refund instructions to Service NSW online customers in ten tranches over fortnightly intervals
12 April 2018	Insurers	Calculate the amount of the premium refund due to any remaining eligible policyholders who were not included in the first data file, less the amount of the insurer administration fee
12 April 2018	Insurers	Send a data file to the Authority setting out the premium refunds due to the listed eligible policyholders
13 April 2018	Service NSW	Create a consolidated list of eligible policyholders and their corresponding refunds, deduct the administration fee and apply the minimum threshold
13 April 2018	Service NSW	Sort data file in descending order by refund amount
1 June 2018 onwards	Service NSW	Prepare file of unclaimed refunds and generate mail out posting to all remaining eligible policyholders to notify them of their entitlement to a refund and how to claim it
30 September 2018	Policy Holder	Last date application for refund can be made

6. Methodology

The items below are excluded from the calculation of the premium refund:

- the Authority Fund Levy is excluded from the refund.
- motorcycles (all classes and zones) are excluded from the receiving a refund however, Insurers are still required to submit the refund related data as per all other vehicles.

The Authority will apply the amounts below the minimum refund entitlement threshold for the purpose of a reduction in the Authority fund levies payable for policies issued during the transition period.

For all policies:

If refund > \$1 then Insurer administration fee = \$1; otherwise insurer administration fee = refund.

If $(\text{Gross Refund} - \text{Administration Costs}) \times (1 + \text{GST}\%) > \text{Repayment Threshold} (\$10)$, then

Premium Refund = $(\text{Gross Refund} - \text{Administration Costs}) \times (1 + \text{GST}\%)$, otherwise
Premium Refund = 0

7. Fleet operator arrangements

Insurers will manage and administer directly any premium refunds for eligible policyholders who have 50 or more registered vehicles.

8. Refund calculation by vehicle class and zone

Each insurer will determine their average premium charged for each vehicle class and zone for policies issued prior to 1 July 2017 and also for policies issued on or after 1 July 2017.

To arrive at the Current Scheme Adjusted Average Premium, insurers should:

- remove GST that was paid by vehicle owners
- remove levies that were paid by vehicle owners
- remove the Deductible Insurer Expenses.

Insurer will determine the Deductible Insurer Expenses as a percentage of gross premium before GST, Levies and PAE/commissions, based on assumptions their past premium rate filings that were effective during the period 1 December 2016 to 30 November 2017. Percentage savings are to be applied to current scheme average premium. Working examples have been prepared and are provided in Appendix 1.

8.1 For policies issued prior to 1 July 2017

The **annual refund amount** = Current Scheme Adjusted Average Premium for class/zone X refund percentage for that class/zone as set out in Table 2 below.

The **Gross Refund** for an individual vehicle owner will be a pro-rata of the **annual refund amount**, where the pro-rata days = days between 30 November 2017 and the date the policy expires.

Table 2. Refund percentages table for pre-1 July 2017 policies (% annual SAVINGS - to be applied on AVERAGE premium)

Class and Region	Metropolitan	Outer Metro	Newcastle	Wollongong	Country
1	-28%	-43%	-35%	-34%	-16%
3c	-23%	-29%	-32%	-22%	-18%
3d	-17%	-15%	-15%	-19%	-26%
3e	-17%	-24%	-25%	-30%	-8%
5	-10%	-23%	-13%	-12%	-26%
6a	-22%	-18%	-32%	-30%	-34%
6b	-2%	-19%	-5%	-22%	-23%
6c	-45%	-45%	-45%	-45%	-45%
6d	-45%	-38%	-18%	-31%	-18%
6e	-19%	-47%	-32%	-39%	-40%
7	-43%	-44%	-43%	-41%	-41%

Class and Region	Metropolitan	Outer Metro	Newcastle	Wollongong	Country
8	-6%	-6%	0%	0%	-2%
9a	-25%	-19%	-19%	-19%	-19%
9d	-16%	-19%	-19%	-19%	-18%
9e	-24%	-31%	-31%	-31%	-43%
9f	-23%	-32%	-42%	-42%	-26%
10d	0%	0%	0%	0%	0%
10e	0%	0%	0%	0%	0%
10f	0%	0%	0%	0%	0%
10g	0%	0%	0%	0%	0%
10h	0%	0%	0%	0%	0%
11	-9%	-9%	-9%	-9%	-9%
12a	-33%	-32%	-27%	-34%	-27%
12b	-40%	-27%	-31%	-36%	-29%
13	-30%	-30%	-27%	-33%	-23%
14	-47%	-48%	-48%	-42%	-48%
15a	-49%	-45%	-44%	-52%	-41%
15c	-32%	-30%	-27%	-22%	-32%
17	-38%	-31%	-36%	-33%	-26%
18a	-36%	-33%	-31%	-35%	-36%
18b	-33%	-34%	-34%	-10%	-34%
18c	0%	0%	0%	0%	0%
19					
20					
21	-26%				
Fleets Class 1*	-28%	-43%	-35%	-34%	-16%
Fleets Class 3c*	-23%	-29%	-32%	-22%	-18%

*Note: These are for fleet vehicles which are given a 40 per cent bonus.

8.2 For policies issued on or after 1 July 2017

The **annual refund amount** = Current Scheme Adjusted Average Premium for class/zone X refund percentage for that class/zone as set out in Table 3. below.

The **Gross Refund** for an individual vehicle owner will be a pro-rata of the **annual refund amount**, where the pro-rata days = days between 30 November 2017 and the date the policy expires.

Table 3. Refund percentages table for policies issued on or after 1 July 2017 (% Annual SAVINGS - to be applied on AVERAGE premium)

Class and region	Metropolitan	Outer Metro	Newcastle	Wollongong	Country
1	-27%	-40%	-32%	-30%	-14%
3c	-21%	-25%	-27%	-17%	-13%
3d	-20%	-21%	-22%	-25%	-23%
3e	-18%	-25%	-24%	-28%	-8%
5	-15%	-28%	-19%	-18%	-20%
6a	-17%	-23%	-27%	-25%	-29%
6b	-6%	-9%	-8%	-14%	-16%
6c	-26%	-26%	-26%	-26%	-26%
6d	-39%	-25%	-10%	-22%	-8%
6e	-14%	-35%	-18%	-26%	-27%
7	-38%	-46%	-38%	-37%	-47%
8	-11%	-13%	-5%	-9%	-8%
9a	-19%	-16%	-16%	-16%	-16%
9d	-12%	-13%	-13%	-13%	-12%
9e	-21%	-33%	-33%	-33%	-35%
9f	-21%	-35%	-37%	-37%	-22%
10d	0%	0%	0%	0%	0%
10e	0%	0%	0%	0%	0%
10f	0%	0%	0%	0%	0%
10g	0%	0%	0%	0%	0%
10h	0%	0%	0%	0%	0%
11	-14%	-14%	-14%	-14%	-14%
12a	-28%	-30%	-28%	-29%	-28%

Class and region	Metropolitan	Outer Metro	Newcastle	Wollongong	Country
12b	-30%	-31%	-30%	-31%	-30%
13	-28%	-29%	-28%	-37%	-29%
14	-27%	-25%	-26%	-31%	-25%
15a	-31%	-28%	-26%	-33%	-22%
15c	-32%	-30%	-29%	-32%	-28%
17	-31%	-26%	-31%	-33%	-23%
18a	-32%	-27%	-27%	-31%	-31%
18b	-25%	-25%	-25%	-24%	-25%
18c	-27%	-31%	-26%	-31%	-28%
19					
20					
21	-31%				
Fleets Class 1*	-27%	-40%	-32%	-30%	-14%
Fleets Class 3c*	-21%	-25%	-27%	-17%	-13%

*Note: These are for fleet vehicles which are given a 40% bonus.

9. GST related adjustment notices

Insurers will be responsible for sending these notices to their customers where appropriate and when requested.

10. Reporting

Service NSW will provide the Authority with weekly reports of refunds claimed per insurer from 1 January to 30 September 2018 inclusive, and monthly reports from for the same period of the average transactional/administrative fee.

Service NSW will provide each Insurer with weekly reports of the policies which have claimed their refunds from 1 January to 30 September 2018 inclusive.

11. Audit

Service NSW will provide the Authority and the insurers with copies of all relevant books and records as may be reasonably required for their own internal governance and audit purposes on request. This includes, but is not limited to, auditable records which were viewed, created and made changes to the system and/or any record, transaction or data stored therein.

12. Unclaimed refunds

Premium refunds will be made available by the Authority (Service NSW acting on its behalf) to eligible policyholders to claim until 12.00pm on 30 September 2018.

If policy holders do not claim their refund before this time and there are residual amounts of unearned premium surplus held by the Authority including by Service NSW, the Authority may direct the insurers make the payments to the Authority to be applied for purposes relating to the administration of, or the promotion of the efficiency and effectiveness of, the motor accidents scheme under the Act.

Appendix 1. Worked examples – Green Slip savings and premium refunds

Green Slip savings formula

Saving = new scheme customer renewal premium due (as set by the insurer) x the Authority prescribed %

The Authority prescribed %:

- should be applied to new scheme customer renewal premium inclusive of levies and GST
- has been set for each vehicle class and region

Estimated premium without reform = new scheme customer renewal premium due as set by insurer + saving as calculated above

- The Authority prescribed % are derived from the savings for the average cohort within a vehicle class and region.

Green Slip savings worked example 1

1. Consider a policy with the following characteristics:
 - Class 1 vehicle
 - garage postcode in the Metro region
 - annual policy.
2. Assume the premium (including GST and levies) for this annual policy under the new scheme set by Insurer A is \$550.
3. The Authority prescribed % for this vehicle class and region is 28.2%.
 - saving = $\$550 \times 28.2\% = \155
 - estimated premium without reform = $\$550 + \$155 = \$705$.

Appendix 2. Worked examples – Premium refunds

UEP premium refunds formula

1. Using the prescribed % saving for a vehicle class and region, insurers to work out the average \$ savings for a given vehicle class and region, for example:

Average \$ refund for a full year = Current Scheme Adjusted Average Premium x prescribed % savings

- Current Scheme Adjusted Average Premium is the average premium charged to vehicle owners within a vehicle class and region during the relevant period, less Deductible Insurer Expenses, GST and levies and applicable on the policy.

2. For an individual policy:

Gross refund = (Average \$ Refund for a full year) x (Policy expiry date - 30/11/2017) / 365

- If (Gross refund - Administration fee) > Threshold, then
- refund (before GST) = Gross refund - Administration fee,
- otherwise Refund (before GST) = 0.

UEP premium refunds worked example 1

1. Consider a vehicle with the following characteristics:
 - Class 1 vehicle
 - garage postcode in the Metro region
 - inception date = 1/5/2017
 - annual policy
 - expiry date = 30/4/2018
 - premium paid was \$640, inclusive of GST and levies.
2. Insurer A also has the following characteristics:
 - Average premium charged for Class 1 Metro policies over the period 1/2/2017 and 1/7/2017 was \$700 (including GST and levies)
 - Policy administration costs and Commission in the rate filing in effect for this policy was 11% of gross premium excluding GST and levies.

3. The following apply at an industry level:

- GST = 10%
- levies = 24.42% (for Class 1 Metro at 1 May 2017)
- administration fee = \$7.87
- threshold = \$10.

4. **For all vehicles in Class 1 Metro for Insurer A:**

- Current Scheme Adjusted Average Premium =
 $\$700 / (1+10\%+24.42\%) \times (1-11\%) = \463.47
- the Authority prescribed % for this vehicle class and region is 28.5%
- average \$ Refund for a full year =
 $\$463.47 \times 28.5\% = \131.99

For the specific policyholder:

- gross refund =
 $\$131.99 \times (30/4/2018 - 30/11/2017) / 365 = \54.60
- refund (before GST =
 $\$49.61$ (based on \$54.61 less \$7.87 administrative fees, which is greater than the set threshold of \$10)
- GST on refund =
 $\$49.61 \times 10\% = \4.96
- total refund received by vehicle owner (inclusive of GST) = \$54.56

UEP premium refunds worked example 2

1. Consider a vehicle with the following characteristics:

- Class 3c vehicle
- garage postcode in the Country region
- inception date = 1/8/2017
- semi-annual policy
- expiry date = 31/01/2018
- premium paid (including GST & levies) = \$280.

2. Insurer B has the following characteristics:

- Average premium charged for Class 3c Country policies over the period 1/7/2017 and 30/11/2017 was \$450 (including GST & levies)
- Policy administration costs and Commission in the rate filing in effect for this policy was 9% of gross premium excluding GST & levies

3. The following apply at an industry level:

- GST = 10%
- levies = 30.24%
- administration fee = \$7.87
- threshold = \$10

4. For all vehicles in Class 3c Country for Insurer B:

- Current Scheme Adjusted Average Premium =
 $\$450 / (1+10\%+30.24\%) \times (1-9\%) = \292.00
- the Authority prescribed % for this vehicle class and region is 13.0%
- average \$ Refund for a full year = $\$292.00 \times 13.0\% = \37.90 .

For the specific policyholder:

- gross refund =
 $\$37.90 \times (31/1/2018 - 30/11/2017) / 365 = \6.44
- refund (before GST) =
\$0 (based on \$6.44 less \$7.87 administrative fees being less than the set threshold of \$10)
- GST on refund = \$0
- total refund received by vehicle owner (inclusive of GST) = \$0

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