

Motor Accident Guidelines – Transitional excess profits and transitional excess losses

Adjustment of Authority Fund levies
to avoid or minimise transitional
excess profits and transitional excess
losses

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1. Introduction

Publication note

These Guidelines are published by the State Insurance Regulatory Authority (the Authority).

Part of the NSW Department of Customer Service, the Authority is constituted under the *State Insurance and Care Governance Act 2015* and is responsible for regulating workers compensation insurance, motor accidents compulsory third party (CTP) insurance and home building compensation insurance in NSW.

Legislative framework

The *Motor Accident Injuries Act 2017* (NSW) (the Act) establishes a scheme of CTP insurance and the provision of benefits and support relating to the death of, or injury to, people injured as a consequence of motor accidents in New South Wales (NSW) on or after 1 December 2017.

A key object of the Act, as described in [section 1.3\(2\)\(d\)](#) is:

- keep premiums for third party policies affordable by ensuring that profits achieved by insurers do not exceed the amount that is sufficient to underwrite the relevant risk and by limiting benefits payable for minor injuries

Guideline-making powers

These Guidelines are made under [Schedule 4, clause 2\(4\)](#) of the Act and apply during the transition period. The object of Schedule 4, clause 2 is to ensure that the underwriting profits achieved by insurers during the transition period are not excessive or inadequate, having regard to the reduction in the cost to insurers of providing compulsory third-party insurance in relation to motor accidents as a consequence of the Act.

Commencement of the Guidelines

The Guidelines come into effect on the publication date and apply to all third party policies issued on or after 1 December 2017.

The Guidelines apply until the Authority amends, revokes or replaces them in whole or in part.

Interpretation of the Guidelines

These Guidelines should be read in conjunction with relevant provisions of the Act and the Motor Accident Guidelines including Part 1 – Premium determination, and in a manner that supports the objects of the Act as described in [section 1.3](#) and the object of [Schedule 4, clause 2](#) of the Act as described in [clause 2\(1A\)](#).

Purpose of the Guidelines

The Guidelines set out the special arrangements for:

- the methodology for the determination of transitional excess profit and transitional excess loss, and
- giving effect to the adjustment of Authority Fund levies to avoid or minimise transitional excess profits and transitional excess losses.

Compliance with the Guidelines

Under the Act, including Schedule 4, clause 2(8), it is a condition of an insurer's licence under the Act that it complies with relevant provisions of the Guidelines.

The Authority will monitor and review compliance with the Guidelines. Compliance and enforcement will be undertaken in accordance with the Authority's Compliance and Enforcement Policy (July 2017).

2. Definitions

The definitions in the Act (including Schedule 4 of the Act) apply to the terms used in these Guidelines, unless the term is otherwise defined below.

The following definitions apply in these Guidelines:

Accident Period means the 13-month period beginning on 1 December 2017 and ending on 31 December 2018 and each 12-month period thereafter.

Acquisition and Policy Expenses means the direct and indirect expenses incurred by an Insurer to acquire, retain, manage and administer its book of CTP business. For the purposes of TEPL, the relevant expenses include commissions paid by Insurers to agents, marketing and advertising costs, and relevant overhead costs such as personnel costs, rent, IT, finance, and stationery.

Act means the *Motor Accident Injuries Act 2017* (NSW).

Actuarial Professional Standards means the relevant professional standards and guidance published by the Actuaries Institute from time to time.

Benchmark Profit Margin means the base profit margin used by the Authority to determine the range of underwriting profit which is a reasonable profit for the purposes of the TEPL Provisions. Benchmark Profit Margin is currently 8%.

Claims Handling Expenses means the direct and indirect expenses related to managing and administering CTP claims for both reported and incurred but not reported claims. For the purpose of TEPL, this includes costs of claims staff, managing claims, rehabilitation staff, managers and support staff and other relevant overhead costs (see clause 9.6(c) and Table 9.6-2).

Claim Payments means the value of claim payments inclusive of sharing payments (i.e. net of sharing in and sharing out payments including interstate sharing), nominal defendant claims and recoveries from other parties, net of non-reinsurance recoveries and tax credits (i.e. input tax credits and decreasing adjustments), capped for each Insurer, in respect of any one event, at the Notional Reinsurance Retention.

Excess Loss means Profit that is less than the Excess Loss Threshold.

Excess Loss Threshold means the bottom end of the range of underwriting profit which is a reasonable profit for the purposes of the TEPL Provisions. The Excess Loss Threshold is currently Benchmark Profit Margin less 5% as determined by the Authority.

Excess Profit means Profit that is more than the Excess Profit Threshold.

Excess Profit Threshold means the top end of the range of underwriting profit which is a reasonable profit for the purposes of the TEPL Provisions. The Excess Profit Threshold is currently Benchmark Profit Margin plus 2% as determined by the Authority.

Expenses means the sum of Claims Handling Expenses and Acquisition and Policy Expenses and Notional Reinsurance Expenses (clause 9.6).

Gross Refund means the unearned premium surplus attributable to policies in force immediately before the start of the transition period (and does not include GST or Authority Fund levies).

Industry Claim Payments means the sum of all Claim Payments made by each Insurer.

Industry Excess Loss means the Industry Excess Loss Margin multiplied by the Industry TEPL Earned Premium (clause 10.3(b)).

Industry Excess Loss Margin means the Excess Loss Threshold less the Reassessed Industry Profit Margin, when the Reassessed Industry Profit Margin is less than the Excess Loss Threshold (clause 10.3(b)).

Industry Excess Profit means the Industry Excess Profit Margin multiplied by the Industry TEPL Earned Premium (clause 10.3(a)).

Industry Excess Profit Margin means the Reassessed Industry Profit Margin less the Excess Profit Threshold, when the Reassessed Industry Profit Margin is greater than the Excess Profit Threshold (clause 10.3(a)).

Industry Outstanding Claims Liabilities means estimated outstanding Claim Payments for all Insurers as assessed by the Scheme Actuary (clause 9.5).

Industry TEPL Earned Premium means the sum of TEPL Earned Premium for all Insurers.

Innovation Support means a percentage of Insurer TEPL Earned Premium for any one Accident Period.

Insurer means a person who is the holder of a licence granted under Division 9.1 of the Act and does not include a self-insurer as defined under Division 9.3 of the Act.

Insurer Excess Loss means Qualifying Insurer Excess Loss divided by Qualifying Industry Excess Loss multiplied by Industry Excess Loss (clause 10.4(b)).

Insurer Excess Profit means the Qualifying Insurer Excess Profit divided by Qualifying Industry Excess Profit multiplied by Industry Excess Profit (clause 10.4(a)).

Insurer Expenses means the sum of Claims Handling Expenses and Acquisition and Policy Expenses and Notional Reinsurance Expenses for a particular Insurer.

Insurer Profit means Insurer TEPL Earned Premium less the Insurer's Claim Payments less the Insurer's Outstanding Claims Liabilities less Insurer Expenses.

Insurer Profit Margin means Insurer Profit divided by Insurer TEPL Earned Premium.

Insurer TEPL Earned Premium means TEPL Earned Premium of a particular Insurer.

Measurement Date means the date as at which Profit is assessed for an Accident Period, and will coincide with the anniversary of the last day of the Accident Period.

Notional Reinsurance Expense means the expense for the estimated cost of Claims over the Notional Reinsurance Retention as estimated by the Scheme Actuary. The same amount applies to all third-party policies issued by all Insurers.

Notional Reinsurance Retention means \$20 million per event.

Outstanding Claims Liabilities means estimated outstanding Claim Payments as assessed by the Scheme Actuary.

Peer Review Actuary means an independent actuary, possessing knowledge and experience at least equivalent to the Scheme Actuary, appointed by the Authority to undertake the actuarial Peer Review described in clause 3.5.

Preliminary Industry Profit means Profit calculated using data aggregated across all Insurers.

Preliminary Industry Profit Margin means the Preliminary Industry Profit divided by Industry TEPL Earned Premium.

Profit is the measure of underwriting profit for the purposes of these Guidelines and means TEPL Earned Premium less Claim Payments less Outstanding Claim Liabilities less Expenses.

Profit Margin means Profit divided by TEPL Earned Premium.

Qualifying Industry Excess Loss means the sum of Qualifying Insurer Excess Loss across all Insurers (clause 10.4(b)).

Qualifying Industry Excess Profit means the sum of Qualifying Insurer Excess Profit across all Insurers (clause 10.4(a)).

Qualifying Insurer Excess Loss means Benchmark Profit Margin less the Insurer Net Profit Margin multiplied by Insurer Earned Premium (clause 10.4(b)).

Qualifying Insurer Excess Profit means the Insurer Profit Margin after deducting Innovation Support (constrained to the minimum of the Benchmark Profit Margin) less Benchmark Profit Margin multiplied by Insurer Earned Premium (clause 10.4(a)).

Reassessed Industry Profit means the sum of all individual Insurer Profit after deducting Innovation Support (if applicable) (clause 10.2).

Reassessed Industry Profit Margin means the Reassessed Industry Profit divided by Industry Earned Premium (clause 10.2).

REM means the Risk Equalisation Mechanism amount received by an Insurer (i.e. withdrawal from the REM pool) or paid by an Insurer (contributions to the REM pool) as per the REM Deed for policies incepting after 1 July 2017.

REM Deed means the Risk Equalisation Mechanism Deed executed by the Authority and Insurers on 18 April 2017.

Scheme means the scheme established by the Act of compulsory third-party insurance and provision of benefits and support relating to the death of or injury to persons as a consequence of motor accidents.

Scheme Actuary means the actuary appointed by the Authority to undertake the actuarial work described in these Guidelines.

Scheme Participant means any of the following persons, except if that person is an Insurer:

- a) a person who is entitled to claim under the Scheme;
- b) an owner of a motor vehicle;
- c) a user of public roads, which may include motorists, pedestrians and cyclists;
- d) a person who provides a service to any other Scheme Participant in relation to the Scheme;
- e) a government entity; and
- f) a member of the general public.

TEPL means the procedure and model for calculation, assessment, and avoidance or minimisation of transitional excess loss and transitional excess profit by the Authority as set out in these Guidelines.

TEPL Earned Premium means the premium amount determined after applying an earning pattern to the Written Premium, with relevant adjustments for REM and Gross Refund, to reflect exposure to claims arising out of accidents occurring in an Accident Period.

TEPL Provisions means the provisions relating to transitional excess profit and transitional excess loss in Schedule 4 of the Act.

UCD means the universal claims database maintained by the Authority in respect of all claims under the Scheme from and including 1 December 2017.

UPD means the universal third-party policy database maintained by the Authority in respect of all policies written on or after 1 December 2016.

Written Premium is the premium collected by Insurers for policies that are in effect in the relevant Accident Period. Written Premium:

- a) includes input tax credit loading and the impact of premium changes arising from policy cancellations, refunds or endorsements;
- b) excludes GST and Authority Fund levies; and
- c) is gross of reinsurance.

3. Elements of TEPL

3.1 Concept of underwriting profit

Schedule 4, clause 2(4) of the Act requires the Authority to assess the underwriting profit of Insurers. In these Guidelines, the Authority takes the following approach to the concept of underwriting profit:

- a) underwriting profit will be assessed on a per Accident Period basis;
- b) actual reinsurance arrangements including profit sharing are not considered, on the basis that these arrangements do not affect underwriting profit when understood as the profit margin on premiums paid by policyholders. However, TEPL applies a Notional Reinsurance Retention which operates effectively as a cap on Claims Payments arising out of a single event, and a Notional Reinsurance Expense in the calculation of the Expense component of premiums;
- c) expenses used in the calculation of underwriting profit, other than past and future Claim Payments and the Notional Reinsurance Expense, will be calculated by reference to the expense assumptions contained in premium rate filings and underwriting profits for individual Insurers will be calculated by reference to an expense ratio which is the same for all Insurers;
- d) underwriting profit is assessed by reference to past and future Claim Payments discounted to reflect their value in the Accident Period in which the relevant premium was earned, to ensure that underwriting profit as assessed under these Guidelines is validly calculated as a component of premium.

3.2 Profit Margin and Thresholds

- a) The Authority will administer the TEPL Provisions by reference to aggregated underwriting profit across all Insurers, including in:
 - i) the determination of a reasonable profit;
 - ii) assessment of transitional excess loss or transitional excess profit; and
 - iii) making adjustments to premiums or Authority Fund levies.
- b) A reasonable profit, aggregated across all Insurers, is underwriting profit in the range bound by the Excess Loss Threshold and the Excess Profit Threshold. Accordingly:

- i) underwriting profits below the Excess Loss Threshold represent transitional excess loss. Avoiding transitional excess loss means lifting the aggregate of Insurer underwriting profits up to the Excess Loss Threshold; and
 - ii) underwriting profits above the Excess Profit Threshold represent transitional excess profit. Avoiding transitional excess profit means lowering the aggregate of Insurer underwriting profits down to the Excess Profit Threshold.
- c) The Authority determines the Excess Loss Threshold and Excess Profit Threshold by reference to the Benchmark Profit Margin. The Profits of individual Insurers are assessed against the Benchmark Profit Margin in assessing the contribution of individual Insurers to Excess Loss or Excess Profit.
- d) Under the TEPL Provisions, transitional excess loss or transitional excess profit is avoided or reduced by making payments from the Authority Fund to, or receiving payments to the Authority Fund from, Insurers. In lifting the aggregate of Insurer underwriting profits to avoid or reduce transitional excess loss, the Authority may make payments from the Authority Fund to Insurers with underwriting profit (as determined in accordance with these Guidelines) at any level below the Benchmark Profit Margin. In lowering the aggregate of Insurer underwriting profits to avoid or reduce transitional excess profit, the Authority may require payments to the Authority Fund from Insurers with underwriting profit (as determined in accordance with these Guidelines) at any level above the Benchmark Profit Margin.
- e) The Authority has determined the following levels for the Benchmark Profit Margin, Excess Loss Threshold and Excess Profit Threshold:
- i) Benchmark Profit Margin - 8%
 - ii) Excess Profit Threshold - 10%
 - iii) Excess Loss Threshold - 3%.
- f) The Benchmark Profit Margin, Excess Profit Threshold and Excess Loss Threshold are subject to review by the Authority.
- g) When reviewing the Benchmark Profit Margin in accordance with clause 3.2(f), the Authority may, in its discretion, invite and consider feedback from Insurers or other Scheme Participants.

3.3 Innovation Support

- a) Schedule 4, clause 2(4A) of the Act has the effect that, in making provision in the Motor Accident Guidelines for the adjustment of Authority Fund levies or premiums for the purposes of the TEPL Provisions, the Authority may take into account innovations implemented by insurers to promote the objects of the Act.
- b) Clause 8 of these Guidelines governs the manner in which the Authority will take into account innovations that are implemented by insurers and promote the objects of the Act. Clause 8 provides for preliminary and final stages of assessment and approval of innovations submitted by Insurers for the grant of Innovation Support.
- c) The Authority may grant Innovation Support to an Insurer up to a maximum of 3% of Insurer TEPL Earned Premium in respect of an Accident Period for innovations with final approval.

- d) For an innovation that is given final approval, the Insurer obtains an entitlement to Innovation Support in the amount determined by the Authority in the event that TEPL is triggered in respect of the relevant Accident Period. Innovation Support is excluded from the calculation of Qualifying Insurer Excess Profit and the calculation of Reassessed Industry Profit. The effect of this is that if TEPL is triggered, the maximum amount an insurer can be directed to pay to the Authority Fund is calculated net of the Innovation Support amount determined by the Authority.

3.4 Scheme Actuary

- a) The Authority will appoint a Scheme Actuary to undertake the actuarial assessments and issue actuarial advice as required to give effect to TEPL.
- b) Reports by the Scheme Actuary will be first issued in draft and, after review by the Peer Review Actuary and the opportunity for comment by the Insurers, in final.
- c) The Scheme Actuary will undertake such other analysis, or issue such other advice, as the Authority may from time to time require in administering the TEPL Provisions and these Guidelines.
- d) The Scheme Actuary will conduct the assessments and prepare any reports in accordance with Actuarial Professional Standards.

3.5 Peer Review

- a) The Authority will appoint a Peer Review Actuary to review and report on each draft report and final report issued by the Scheme Actuary.
- b) The Peer Review Actuary's report will be issued to the Authority and a copy will be given to the Insurers together with any draft or final report issued by the Scheme Actuary.
- c) The scope of the review by the Peer Review Actuary will be determined by the Authority, and in any case will include a review of:
 - i) the data used by the Scheme Actuary;
 - ii) the Scheme Actuary's approach and methodology;
 - iii) the Scheme Actuary's assumptions made; and
 - iv) the results of the Scheme Actuary's analysis.

3.6 Comment by Insurers

Insurers will have the opportunity to provide written comments or submissions (together with any supporting documents) to the Authority on draft reports issued by the Scheme Actuary (and the Peer Review Actuary's report on any such draft report). The Authority will give those comments or submissions to the Scheme Actuary and Peer Review Actuary.

3.7 Data and other information for TEPL

- a) Subject to the provisions of the Act, the Authority (and the Scheme Actuary) may use any data or other information which is relevant to TEPL, obtained from

any source available to the Authority, in order to undertake the analyses required to give effect to TEPL, review or verify the results of those analyses, or exercise any other function under these Guidelines.

- b) The Authority will ensure that the sources of data or other information used by the Scheme Actuary or the Authority are disclosed to Insurers in reports issued under these Guidelines by the Scheme Actuary and decisions notified under clauses 6 or 7.

3.8 Key points in the TEPL procedure

- a) On an annual basis, and otherwise at the Authority's request, the Authority will receive a report by the Scheme Actuary into the Preliminary Industry Profit Margin for relevant Accident Periods as at the Measurement Date.
- b) If the Preliminary Industry Profit Margin for a given Accident Period as at the Measurement Date is outside the range of the Excess Loss and Excess Profit Thresholds, then the Authority may request the Scheme Actuary to report the Reassessed Industry Profit Margin for that period.
- c) If the Authority makes that request, and:
 - i) the Reassessed Industry Profit Margin as at the Measurement Date is outside the range of the Excess Loss and Excess Profit Thresholds; and
 - ii) the Authority is satisfied that, as at the Measurement Date, 95% or more of Claim Payments have been made for the relevant Accident Period; or
 - iii) the Authority is satisfied that, when 95% or more of Claim Payments have been made for the relevant Accident Period, the Reassessed Industry Profit Margin is likely to be outside the range of the Excess Loss and Excess Profit Thresholds,

then the Authority may adjust premiums or Authority Fund levies to avoid or minimise transitional excess loss or transitional excess profit.

3.9 Adjustments to Authority Fund levies

Consistently with the TEPL Provisions, adjustments to Authority Fund levies will either fund payments from the Authority Fund to Insurers (in the case of transitional excess loss) or be funded by payments to the Authority Fund from Insurers (in the case of transitional excess profit). In issuing an updated schedule of Authority Fund levies to Insurers to give effect to TEPL, the Authority has a discretion to determine:

- a) the extent to which transitional excess loss or transitional excess profit will be minimised, if not avoided;
- b) the period over which adjustments to Authority Fund levies will apply;
- c) the timing of payments to or from Insurers; and
- d) net adjustments to Authority Fund levies after taking into account past and present adjustments relating to two or more Accident Periods (and consequently net payments to or from Insurers).

3.10 Rounding

Profit margins reported by the Scheme Actuary and amounts to be paid into and out of the Authority Fund will be rounded up or down, in the case of percentages, to the

nearest 2 decimal places and, in the case of dollar amounts, to the nearest thousand. Rounding will only occur at the conclusion of any calculation under clauses 9 and 10.

3.11 Review of certain decisions

An internal review of certain of the Authority's decisions within TEPL is available on the application of an affected Insurer, as outlined in clause 7.

3.12 Reinsurance arrangements

Adjustments to Authority Fund levies and payments to or from the Authority Fund under these Guidelines apply irrespective of any Insurer's reinsurance arrangements including profit sharing.

4. Preliminary Industry Profit Margin

4.1 Report by the Scheme Actuary

- a) At the end of each Accident Period, and otherwise at the request of the Authority, the Scheme Actuary will prepare a report on the Preliminary Industry Profit Margin as at the Measurement Date for concluded Accident Periods (not including the most recently concluded Accident Period or any Accident Periods that the Authority determines do not require assessment) in accordance with clause 9.
- b) After undertaking the required calculations, the Scheme Actuary will provide a report in draft form to the Authority and the Authority will give a copy to the Peer Review Actuary for review.
- c) The Peer Review Actuary will prepare a report of its review of the Scheme Actuary's draft in accordance with clause 3.5(c) and any additional scope as determined by the Authority.
- d) The Peer Review Actuary will provide its report to the Scheme Actuary and the Authority.
- e) The Authority will give copies of the Scheme Actuary's draft report and the Peer Review Actuary's report (Reports) and an outline of its proposed decision to the Insurers.
- f) Within 3 weeks of receipt, or such other period as notified by the Authority, the Insurers may provide written comments or submissions (including any documents in support of the comments or submissions) on one or both of the Reports to the Authority.
- g) The Authority will forward any comments or submissions received from the Insurers, together with any comments of its own, to the Scheme Actuary and Peer Review Actuary.
- h) The Scheme Actuary will provide its report in final form to the Authority and to the Peer Review Actuary.
- i) The Peer Review Actuary will prepare a report of its review of the Scheme Actuary's final report in accordance with clause 3.5(c) and any additional scope

as determined by the Authority. The Peer Review Actuary's report may be by way of update to its report concerning the Scheme Actuary's draft report.

- j) The Peer Review Actuary will provide its report to the Scheme Actuary and the Authority.

4.2 Assessment of Preliminary Industry Profit Margin

In respect of any Accident Period that is the subject of the Scheme Actuary's final report and the Peer Review Actuary's report concerning it (Final Reports), if the Authority is satisfied after considering the Final Reports that the Preliminary Industry Profit Margin as at the Measurement Date is:

- a) within the range bounded by the Excess Profit and Excess Loss Thresholds, then the Authority will notify the Insurers and give them copies of the Final Reports. This will end the TEPL process in respect of that Accident Period, subject to future application of TEPL at a later date;
- b) outside the range bounded by the Excess Profit and Excess Loss Thresholds, then the Authority may:
 - i) decide not to proceed with TEPL. In that case, the Authority will notify the Insurers and give written reasons for its decision and copies of the Final Reports. This will end the TEPL process in respect of that Accident Period, subject to future application of TEPL at a later date; or
 - ii) request the Scheme Actuary to report on the Reassessed Industry Profit Margin. In that case, the Authority will notify the Insurers and give written reasons for its request and copies of the Final Reports. The TEPL process will move to the next step (set out in clause 5 below).

4.3 Decision whether to proceed with TEPL

In making a decision under clause 4.2(b) whether to request the Scheme Actuary to report on the Reassessed Industry Profit Margin or not to proceed with TEPL, the Authority may have regard to:

- a) the amount by which the Preliminary Industry Profit Margin for the Accident Period falls short of or exceeds the Excess Profit and Excess Loss Thresholds;
- b) the Scheme Actuary's estimate of the percentage of Claim Payments for the Accident Period that have been made as at the Measurement Date;
- c) the Scheme Actuary's analysis of projected underwriting profit developments;
- d) in a circumstance where the Preliminary Industry Profit Margin for the Accident Period falls short of the Excess Loss Threshold, the nature and extent of any conduct by an Insurer that has been the subject of investigation, monitoring, audit or a report by the Authority, or the subject of a notice issued by the Authority requiring the provision or availability for inspection of information, or which has been the subject of a mandatory notification by the Insurer to the Authority, and that has contributed to that circumstance;
- e) whether any Innovation Support in respect of the Accident Period has been given preliminary or final approval;
- f) whether any changes to legislation, regulations, Motor Accident Guidelines or actuarial assumptions have contributed to the Preliminary Industry Profit Margin

for the Accident Period falling short of or exceeding the Excess Profit and Excess Loss Thresholds; and

g) any other matter that the Authority considers relevant.

4.4 Confidentiality of reports

Insurers may disclose the contents of the Reports or the Final Reports to their actuarial or legal advisers, reinsurers and auditors who have agreed to keep them confidential but must not disclose the contents of the Reports or the Final Reports to any other person without the prior written consent of the Authority. Insurers may disclose the Reports or their contents if required by law or the order of a Court.

5. Reassessed Industry Profit Margin

5.1 Report by the Scheme Actuary

- a) If requested by the Authority, the Scheme Actuary will prepare a report on the Reassessed Industry Profit Margin as at the Measurement Date for specified Accident Periods in accordance with clause 10.
- b) After undertaking the required calculations, the Scheme Actuary will provide a report in draft form to the Authority and the Authority will give a copy to the Peer Review Actuary.
- c) The Peer Review Actuary will prepare a report of its review of the Scheme Actuary's draft in accordance with clause 3.5(c) and any additional scope as determined by the Authority.
- d) The Peer Review Actuary will provide its report to the Scheme Actuary and the Authority.
- e) The Authority will give copies of the Scheme Actuary's draft report and the Peer Review Actuary's report (Reports) to the Insurers, subject to the proviso that, for each Insurer, details of individual Insurer Profits relating to other Insurers will be removed from the copies of the Reports given to that Insurer.
- f) Within 3 weeks of receipt, or such other period as notified by the Authority, the Insurers may provide written comments or submissions (including any documents in support of the comments or submissions) on one or both of the Reports to the Authority.
- g) The Authority will forward any comments or submissions received from the Insurers, together with any comments of its own, to the Scheme Actuary and Peer Review Actuary.
- h) The Scheme Actuary will provide its report in final form to the Authority and to the Peer Review Actuary.
- i) The Peer Review Actuary will prepare a report of its review of the Scheme Actuary's final report in accordance with clause 3.5(c) and any additional scope as determined by the Authority. The Peer Review Actuary's report may be by way of update to its report concerning the Scheme Actuary's draft report.
- j) The Peer Review Actuary will provide its report to the Scheme Actuary and the Authority.

5.2 Assessment of Reassessed Industry Profit Margin

In respect of any Accident Period that is the subject of the Scheme Actuary's final report and the Peer Review Actuary's report concerning it (Final Reports), if the Authority is satisfied after considering the Final Reports that the Reassessed Industry Profit Margin as at the Measurement Date is:

- a) within the range bounded by the Excess Profit and Excess Loss Thresholds, then the Authority will notify the Insurers and give copies of the Final Reports (subject to the proviso that, for each Insurer, details of individual Insurer Profits relating to other Insurers will be removed from the copies of the Reports given to that Insurer). This will end the TEPL process in respect of that Accident Period, subject to future application of TEPL at a later date;
- b) outside the range bounded by the Excess Profit and Excess Loss Thresholds, then:
 - i) if the Authority is satisfied, having regard to advice from the Scheme Actuary, that:
 - A. 95% of Claim Payments for the Accident Period have been made; or
 - B. when 95% of Claim Payments for the Accident Period is reached the Reassessed Industry Profit Margin is likely to remain outside the range bounded by the Excess Profit and Excess Loss Thresholds,

the Authority may:

- C. decide not to proceed with TEPL. In that case, the Authority will notify the Insurers and give written reasons for its decision and copies of the Final Reports (subject to the proviso that, for each Insurer, details of individual Insurer Profits relating to other Insurers will be removed from the copies of the Reports given to that Insurer). This will end the TEPL process in respect of that Accident Period, subject to future application of TEPL at a later date; or
- D. decide to make adjustments to Authority Fund levies to avoid or minimise transitional excess profit or transitional excess loss. In that case, the TEPL process will move to the next step (set out in clause 6 below);
- ii) if the Authority is not satisfied as to clauses 5.2(b)(i)A or 5.2(b)(i)B, then the Authority will notify the Insurers and give copies of the Final Reports (subject to the proviso that, for each Insurer, details of individual Insurer Profits relating to other Insurers will be removed from the copies of the Reports given to that Insurer). This will end the TEPL process in respect of that Accident Period, subject to future application of TEPL at a later date.

5.3 Decision whether to make adjustments to Authority Fund levies

In making a decision under clause 5.2(b)(i) whether to make adjustments to Authority Fund levies to avoid or minimise transitional excess loss or transitional excess profit or not to proceed with TEPL, the Authority may have regard to:

- a) the value of Industry Excess Loss or Industry Excess Profit for the Accident Period;
- b) the size of the Industry Excess Loss Margin or Industry Excess Profit Margin for the Accident Period;

- c) the Scheme Actuary's estimate of the percentage of Claim Payments for the Accident Period that have been made as at the Measurement Date;
- d) the Scheme Actuary's analysis of projected underwriting profit developments;
- e) in a circumstance of Industry Excess Loss, the nature and extent of any conduct by an Insurer that has contributed to that circumstance;
- f) whether any Innovation Support in respect of the Accident Period has been given preliminary or final approval;
- g) whether any changes to legislation, regulations, Motor Accident Guidelines or actuarial assumptions have contributed to the Industry Excess Loss or Industry Excess Profit; and
- h) any other matter that the Authority considers relevant.

5.4 Confidentiality of reports

Insurers may disclose the contents of the Reports or the Final Reports to their actuarial or legal advisers, reinsurers and auditors who have agreed to keep them confidential but must not disclose the contents of the Reports or the Final Reports to any other person without the prior written consent of the Authority. Insurers may disclose the Reports or their contents if required by law or the order of a Court.

6. Adjustment of Authority Fund levies

6.1 Transitional excess loss

If the Authority decides to adjust Authority Fund levies to avoid or minimise transitional excess loss, then the following procedure will apply.

- a) The Authority will determine whether to adjust Authority Fund levies to avoid transitional excess loss, or the extent of minimisation of transitional excess loss, and the period over which adjusted Authority Fund levies are to apply.
- b) The Authority will notify the Insurers and give written reasons for its decision (including the decision under clause 6.1(a)) and copies of the Final Reports to the Insurers (subject to the proviso that, for each Insurer, details of individual Insurer Profits relating to other Insurers will be removed from the copies of the Reports given to that Insurer).
- c) The Authority will issue an updated schedule of Authority Fund levies to Insurers to be applied from the date specified by the Authority.
- d) The Authority will notify each individual Insurer of the amount to be paid to the Insurer from the Authority Fund, if any, in respect of transitional excess loss and the reasons for the determination. For Insurers with a Qualifying Insurer Excess Loss, the amount to be paid to an individual Insurer will be in proportion to the Insurer's contribution to the Qualifying Industry Excess Loss, subject to the proviso that the Authority may adjust the amount having regard to the nature and extent of any conduct by the Insurer that has contributed to its Qualifying Insurer Excess Loss. Insurers without a Qualifying Insurer Excess Loss will not be paid an amount from the Authority Fund.

- e) If the Authority makes an adjustment under clause 6.1(d) to the amount to be paid to an Insurer, then the adjustment will affect the adjustment to Authority Fund levies and will not affect the amount to be paid to any other Insurer.
- f) After the receipt of adjusted Authority Fund levies into the Authority Fund, and in accordance with a schedule of payments to be determined by the Authority, the Authority will direct payments from the Authority Fund to Insurers.

6.2 Transitional excess profit

If the Authority decides to adjust Authority Fund levies to avoid or minimise transitional excess profit, then the following procedure will apply.

- a) The Authority will determine whether to adjust Authority Fund levies to avoid transitional excess profit, or the extent of minimisation of transitional excess profit, and the period over which adjusted Authority Fund levies are to apply.
- b) The Authority will notify the Insurers and give written reasons for its decision (including the decision under clause 6.2(a) and copies of the Final Reports to the Insurers (subject to the proviso that, for each Insurer, details of individual Insurer Profits relating to other Insurers will be removed from the copies of the Reports given to that Insurer).
- c) The Authority will issue an updated schedule of Authority Fund levies to Insurers to be applied from the date specified by the Authority.
- d) The Authority will notify each individual Insurer of the amount to be paid by the Insurer to the Authority Fund, if any, in respect of transitional excess profit. For Insurers with a Qualifying Insurer Excess Profit, the amount to be paid by an individual Insurer will be in proportion to the Insurer's contribution to the Industry Qualifying Excess Profit. Insurers without a Qualifying Insurer Excess Profit will not be required to pay an amount to the Authority Fund.
- e) An Insurer that is notified under clause 6.2(d) of an amount to be paid to the Authority Fund must provision for the amount as a liability to the Authority.
- f) In accordance with a schedule of payments to be determined by the Authority, the Authority will direct Insurers to make payments to the Authority Fund.

6.3 Determination of adjustments to Authority Fund levies etc.

In making determinations under clauses 6.1(a) and 6.2(a), the Authority may have regard to:

- a) the matters referred to in clause 5.3;
- b) for each Insurer, its Insurer Excess Profit or Loss;
- c) the effect of any adjustment to Authority Fund levies on the cost to owners of third-party policies;
- d) the likely effect on the Scheme of an adjustment to Authority Fund levies and avoidance or minimisation of transitional excess loss or transitional excess profit, including having regard to the period of time over which adjustments may apply; and
- e) any other matter that the Authority considers relevant.

6.4 Netting of payments to or from Insurers

- a) In determining an amount to be paid to or from the Authority Fund under these Guidelines, the Authority may issue a net determination in respect of multiple Accident Periods, including by way of update to a previous determination.
- b) If an Insurer has made provision for a liability to the Authority Fund under clause 6.2(e) and the Authority subsequently issues a net determination under clause 6.4(a) which has the effect of reducing the Insurer's liability to the Authority Fund, then the Insurer may reduce the amount of the provision by the amount of the reduction in its liability.

7. Internal review of decisions

7.1 Decisions to which internal review applies

This clause 7 applies to decisions of the Authority under:

- a) clause 6.1(a) (whether to adjust Authority Fund levies to avoid transitional excess loss, or minimise transitional excess loss by a particular extent, and the period over which adjusted Authority Fund levies are to apply);
- b) clause 6.2(a) (whether to adjust Authority Fund levies to avoid transitional excess profit, or minimise transitional excess profit by a particular extent, and the period over which adjusted Authority Fund levies are to apply);
- c) clause 6.1(f) or 6.2(f) (as to the schedule of payments from or to the Authority Fund); and
- d) clause 6.4(a) (netting of payments from or to the Authority Fund).

7.2 Application for review

- a) An Insurer may apply to the Authority for a review of a decision to which this clause applies.
- b) An application under this clause must be made:
 - i) in writing and addressed to the Chief Executive of the Authority; and
 - ii) within 28 days of the date that the decision is notified to the Insurer.
- c) The application must:
 - i) identify the decision of which the Insurer (applicant) seeks review;
 - ii) state the alternative decision which the applicant seeks from the Authority and the grounds on which the applicant says that the alternative is the correct or preferable decision;
 - iii) be accompanied at the time the application is made by all relevant documents or material which are necessary to support the applicant's position referred to in clause 7.2(c)(ii).
- d) The Authority will acknowledge receipt of the application and notify all other Insurers of the application and the decision under review. Insurers must keep the notification confidential.

7.3 Effect of application for review

Upon acknowledgment of an application under this clause, the operation of:

- a) the decision under review; and
- b) any other decision in the TEPL process for the relevant Accident Period which has not already been carried into effect,

is stayed pending the outcome of the review.

7.4 Decision on the review

- a) At the conclusion of the review, the Authority may affirm, vary or replace the decision under review.
- b) The Authority's decision on the review will be that which the Authority considers to be the correct or preferable decision, in exercise of the decision-making authority which gave rise to the decision under review, having regard to the information and submissions:
 - i) available at the time of the decision under review;
 - ii) included in the application for review; and
 - iii) obtained by the Authority under clauses 7.6(d), 7.6(e) or 7.6(f).

The review will be based on the calculations and opinions contained in the reports of the Scheme Actuary and Peer Review Actuary (to the extent relevant). The Authority will not consider alternative or amended calculations or actuarial opinions in the course of the review.

- c) If the Authority varies or replaces the decision under review, the Authority is not limited to making the alternative decision sought by the applicant.
- d) The Authority may affirm, vary or replace any other decision which is stayed under clause 7.3(b), if the Authority in its discretion determines that it is necessary or convenient to do so having regard to the Authority's decision on the review.
- e) With effect from the date of the Authority's decision on the review (or such other date that the Authority may specify in its decision on the review):
 - i) the stay under clause 7.3(b) will lift; and
 - ii) subject to:
 - A. any variation or replacement under this clause 7.4; and
 - B. the adjustment of any time periods, as relevant, to account for the period of the stay,

the operation of the decision reviewed and any other decision stayed under clause 7.3(b) will proceed.

7.5 Withdrawal of application for review

An applicant may withdraw the application for review by written notice to the Authority at any time before the date of the Authority's decision on the review. If an application is withdrawn, then:

- a) the stay under clause 7.3(b) will lift on the date on which the Authority receives the written notice of withdrawal;
- b) the Authority will notify all other Insurers of the withdrawal; and
- c) subject to the adjustment of any time periods, as relevant, to account for the period of the stay, the operation of the decision reviewed and any other decision stayed under clause 7.3(b) will proceed.

7.6 Conduct of the review

- a) The review will be undertaken by the Authority.
- b) The review will be handled by;
 - i) the Chief Executive of the Authority; or
 - ii) an individual who is an employee or officer of the Authority who is directed by the Chief Executive of the Authority to handle the review. That individual will be, as far as is practicable, a person who:
 - A. was not substantially involved in making the decision under review, and
 - B. is suitably qualified to deal with the matters raised by the application for review.
- c) Where two or more applications for review concern the same or related subject matter, the Authority may decide to undertake a single review encompassing all such applications.
- d) In undertaking the review, the Authority may obtain or request any information that it determines may assist the conduct of the review, whether from the applicant or any other person.
- e) If at any time during the review, having regard to the decision under review and the alternative decision sought in the application, the Authority is satisfied that another Insurer may be adversely affected by the decision under review or the alternative decision sought in the application, then the Authority will give that other Insurer a reasonable opportunity to provide relevant information and submissions for consideration in the review.
- f) If the Authority obtains or receives information from a source other than the applicant and the information may result in the Authority not making the alternative decision sought by the applicant, then the Authority will invite the applicant to make a submission addressing the information.
- g) If invited to provide information or submissions to the Authority under clause 7.6(d), (e) or (f), the applicant or relevant Insurer must provide the information or submissions within the time specified by the Authority. The Authority will be entitled to proceed without considering information or submissions provided outside of the time specified by the Authority for providing them.
- h) The Authority will make a decision on the review within 6 weeks of receiving the last on-time submission from the applicant or another Insurer.

7.7 Notification of the Authority's decision on the review

The Authority:

- a) will notify all Insurers of the decision on the review;
- b) will give all Insurers a copy of the written reasons for the decision; and

will remove confidential information relating to an individual Insurer from the copy of the written reasons given to other Insurers.

8. Innovation Support

8.1 Innovations

- a) Subject to this clause 8, the Authority will consider applications for Innovation Support in relation to innovations that:
 - i) have not previously been implemented successfully within the Scheme by any Insurer; and
 - ii) are expected to deliver measurable benefits (whether qualitative or quantitative) to Scheme Participants.
- b) An application may be considered even if the innovation consists only of an improvement to existing processes or practices.
- c) An innovation may also deliver benefits to the Insurer applying for Innovation Support.
- d) If two or more Insurers at or about the same time submit applications relating to innovations which are the same or substantially similar, then the Authority may consider both applications if it considers it appropriate to do so.
- e) If an Insurer submits an application relating to an innovation which is the same or substantially similar to an innovation which is already the subject of a preliminary approval under clause 8.7 (but not final approval under clause 8.9), then the Authority will only consider the second application if it considers it appropriate to do so.

8.2 Benefits

Without limiting the kinds of benefits that may be delivered by an innovation, benefits to Scheme Participants may include:

- a) improved health or social outcomes for claimants;
- b) increased client satisfaction of policyholders or claimants;
- c) reduced number of deaths, or number or severity of injuries, caused by motor accidents;
- d) savings of time or money for policyholders or claimants;
- e) more efficient or effective work processes for the delivery of product or claims services;
- f) any other benefit which promotes the objects of the Act.

8.3 Applications for Innovation Support

In making an application for Innovation Support, Insurers must act bona fide and must only submit an application if it is genuinely considered to be innovative and to be likely to deliver benefits to Scheme Participants.

8.4 Assessment and approval stages

Assessment and approval of an innovation involves the following stages:

- a) Stage 1: Submission of an innovation to the Authority;
- b) Stage 2: Feedback from the Authority and response from the Insurer;
- c) Stage 3: Decision by the Authority as to preliminary approval;
- d) Stage 4: Implementation and assessment;
- e) Stage 5: Decision by the Authority as to final approval; and
- f) Stage 6: Ongoing assessment.

8.5 Stage 1: Submission of application for Innovation Support

- a) An Insurer may submit an application for preliminary approval of Innovation Support at any time.
- b) Applications should be addressed for the attention of the Executive Director of Motor Accidents Insurance Regulation and sent electronically to the email address notified by the Authority from time to time.
- c) The Authority will not consider an application that relates to an innovation that has been implemented prior to submission for assessment.
- d) Despite clause 8.5(c), the Authority will consider applications that relate to innovations that were implemented before the publication of these Guidelines, provided that such innovations:
 - i) commenced implementation on or after 1 December 2017;
 - ii) apply to the Scheme under the Act; and
 - iii) otherwise meet the requirements set out in this clause.
- e) An Insurer is not precluded from having multiple innovations under assessment or subject to preliminary or final approval at any one time.

Content of application

- f) Applications for preliminary approval of Innovation Support must include sufficient information and detail to enable the Authority to make its assessment, including but not limited to detailed information as to the:
 - i) innovation itself and its rationale and proposed operation;
 - ii) reasons why the proposal is innovative and confirmation that substantially the same proposal has not previously been implemented within the Scheme;
 - iii) benefits that are expected to result from the innovation;
 - iv) estimated cost to the Insurer and any other person of implementing the innovation;
 - v) impact on the profitability of the Insurer;
 - vi) timeline for implementation and the period within which the innovation will operate;

- vii) method and variables for measuring the costs and benefits of the innovation, together with existing data on those variables;
- viii) criteria against which the benefits of the innovation will be measured, including:
 - A. benchmarks;
 - B. time periods of measurement;
 - C. who will undertake the measurement; and
 - D. how and by whom the results will be independently verified;
- ix) plan for regular evaluations of the innovation through implementation to delivery of expected benefits;
- x) governance mechanisms within the Insurer for oversight of the implementation;
- xi) risks associated with the innovation.
- g) The application must include a statement to the effect that implementation of the innovation will not breach any law.
- h) The application must state:
 - i) the amount of Innovation Support and its duration (in Accident Periods) sought by the Insurer in respect of the innovation, how this is justified, and the estimated dollar value of that amount of Innovation Support (by Accident Periods); and
 - ii) whether the Insurer will recover compensation, derive profit, or receive any other form of remuneration in connection with implementing the innovation, or intends to take steps to do so.
- i) The Authority may require the Insurer to supplement the application with a report (or reports) by a suitably qualified independent third party which assesses:
 - i) the innovative quality of the innovation;
 - ii) the persons or groups that will benefit from the innovation, and the nature and extent of those benefits;
 - iii) whether, and to what extent, any persons or groups will be disadvantaged by the innovation; and
 - iv) the risks associated with the innovation; and
 - v) the likely cost to the Insurer of implementing the innovation.
- j) The application must be supplemented with any other information or documents requested by the Authority for the purposes of the assessment.

Multiple or subsequent applications

- k) An Insurer may submit more than one application for assessment at any time. Each innovation requires a separate application.
- l) If the Authority refuses to grant preliminary approval to an innovation, the Insurer may resubmit provided that, in the Authority's view, the resubmission is substantially revised or amended so as to warrant reassessment. A resubmission which is not substantially revised or amended so as to warrant reassessment will not be assessed.

- m) Two or more Insurers may submit the same or substantially similar innovations at or about the same time (including where, for example, the Insurers have collaborated in developing the innovation). However, the Authority will assess each application separately. In the case of collaboration on an innovation, each Insurer must include details of the collaboration in the application.

8.6 Stage 2: Feedback and Insurer's response

- a) The feedback stage is an opportunity for the Insurer to amend, improve, or give greater detail in relation to its application.
- b) The Authority will provide the Insurer with a written outline of the Authority's initial views as to:
 - i) assessment of the application against the criteria for approval;
 - ii) potential amendments to the innovation or the application that may enhance the prospects of the grant of preliminary approval.
- c) The Insurer will have the opportunity to respond to the Authority's feedback within the time specified by the Authority, which will be not less than 21 days.
- d) The Authority will take the Insurer's response into consideration when deciding whether to grant preliminary approval.
- e) Any views expressed by the Authority in the feedback stage are subject to change, will be given on the basis that they cannot be construed as representations on which the Insurer can rely and will not bind the Authority when considering whether to grant preliminary approval.

8.7 Stage 3: Decision as to preliminary approval

- a) If the Authority is satisfied that an innovation has not previously been implemented successfully in the Scheme, and is likely to deliver measurable benefits to Scheme Participants, then the Authority may give preliminary approval for Innovation Support if the innovation is implemented and finally approved. The level of Innovation Support will be decided by the Authority in its discretion and on a case-by-case basis in respect of a given Accident Period.

Criteria for preliminary approval

- b) The Authority will assess innovations submitted for preliminary approval having regard to the following criteria:
 - i) whether the innovation has not previously been implemented successfully in the Scheme;
 - ii) the nature and extent of the expected benefits to Scheme Participants;
 - iii) the nature and extent of any expected benefit to the Insurer;
 - iv) the existence of clear, objective criteria to measure the benefits of the innovation;
 - v) the existence of a systematic work plan for regular evaluations of the innovation through implementation to delivery of expected benefits;
 - vi) the existence of appropriate governance and risk management mechanisms within the Insurer to ensure that the innovation is developed and implemented safely, ethically and lawfully;

- vii) the alignment of the innovation with the objects of the Act and the innovation's compliance with law;
- viii) the appropriate level of Innovation Support for the innovation; and
- ix) any other matter that the Authority considers relevant.

Notification of decision

- c) After assessing a submission, the Authority will notify the Insurer in writing of its decision whether to reject or grant preliminary approval to the innovation and, if granting preliminary approval:
 - i) the level of Innovation Support for the innovation;
 - ii) the duration for which the Innovation Support will apply; and
 - iii) any conditions to which the preliminary approval is subject.
- d) The preliminary approval will set out the Authority's requirements as to implementation, regular reporting during the course of implementation, and assessment of implementation, of the innovation as approved.
- e) Preliminary approval may be subject to such other conditions as the Authority may require.

8.8 Stage 4: Implementation and assessment

- a) An Insurer with preliminary approval for an innovation must, in order to be given final approval:
 - i) implement the innovation in accordance with the preliminary approval and notify the Authority when the innovation has been implemented; and
 - ii) if required by the Authority as a condition of the preliminary approval, provide a report to the Authority by a suitably qualified independent third party:
 - A. confirming that the innovation has been implemented;
 - B. providing an assessment of the benefits delivered by the innovation; and
 - C. setting out the method, results and verification of the assessment of the implementation and its benefits and giving an assessment of the Insurer's actual costs to date of implementing the innovation.
- b) The Insurer may, at any time after notification of preliminary approval, request in writing an amendment to the preliminary approval (for example, to delay the start date for implementation). The amendment should not change in substance the innovation or its implementation. The Authority may, in its discretion, accept or reject the request. The Authority will use reasonable endeavours to give the Insurer its decision within 14 days of receiving the request.
- c) The Authority may withdraw the preliminary approval, at any time before final approval, if satisfied that the conditions to which the preliminary approval is subject have not been satisfied.

8.9 Stage 5: Decision as to final approval

- a) The Authority will give final approval to an innovation if it is satisfied that the criteria for final approval have been met.

Criteria for final approval

- b) The Authority must be satisfied that the innovation has:
 - i) been implemented in accordance with the preliminary approval, including any specific requirements for the implementation to which the preliminary approval is expressed to be subject; and
 - ii) resulted in measurable benefits to Scheme Participants to a level which warrants Innovation Support.
- c) In giving final approval to an innovation, if the Authority is not satisfied that the innovation has resulted in the expected benefits to Scheme Participants, the Authority may vary the amount of Innovation Support allowed as a result of the final approval.
- d) In giving final approval, the Authority may specify conditions to which the final approval is subject.
- e) A final approval is subject to compliance with the Authority's requirements, set out in the final approval, for the provision of information by the Insurer to enable ongoing assessment under clause 8.10.

Notification of decision

- f) The Authority will communicate its decision as to final approval within 6 weeks of receiving notification from the insurer under clause 8.8(a)(i) or the report provided under clause 8.8(a)(ii) (whichever is later).

Entitlement to Innovation Support

- g) If an Insurer receives notification of the grant of final approval, Innovation Support in the approved amount will apply to TEPL calculations relating to the Insurer in the relevant Accident Period(s).
- h) For any individual Insurer, the level of Innovation Support in a given Accident Period in respect of all innovations cannot exceed 3% of Insurer TEPL Earned Premium.

8.10 Stage 6: Ongoing assessment after final approval

- a) Until such time as the Authority makes TEPL adjustments to Authority Fund levies in respect of the relevant Accident Period, or makes a final decision not to make such adjustments, a final approval of Innovation Support is subject to:
 - i) annual review of the innovation by the Authority or as specified in the final approval; and
 - ii) annual submission of a self-assessment by the Insurer.
- b) Review by the Authority and self-assessment by the Insurer will incorporate assessment of the benefits to Scheme Participants delivered by the innovation, risk management in relation to the innovation, and any changes or adjustments to the innovation, its benefits, or their measurement. Self-assessment must include details of any additional costs of implementing the innovation since the date of the final approval.
- c) The Authority may require the Insurer to submit additional information to supplement the annual self-assessment for the purposes of its review.

- d) The Authority will issue a report to the Insurer of the results of each review under clause 8.10(a)(i).
- e) If, following a review under clause 8.10(a)(i), it appears to the Authority that the Insurer has not maintained the innovation in such a way as to maintain the benefits (or the level of benefits) to Scheme Participants on which the final approval was based, then the Authority may issue a notice of intention to reduce the level of Innovation Support that applies to the innovation. The notice will give the Insurer at least 21 days to respond. If, after considering the Insurer's response, the Authority is not satisfied that the Insurer has maintained the innovation in such a way as to maintain the benefits (or the level of benefits) to Scheme Participants on which the final approval was based, then the Authority may change the level of Innovation Support by written notice to the Insurer.
- f) Clause 8.10(e) does not apply to the extent that the failure to maintain an innovation in such a way as to maintain the benefits (or the level of benefits) to Scheme Participants on which the final approval was based, is the result of industry-wide changes to the practices or procedures of Insurers that:
 - i) make the innovation obsolete or unnecessary to maintain; or
 - ii) replace or supersede the benefits to Scheme Participants on which the final approval was based.

8.11 Cost of implementing an innovation

The cost of implementing an innovation must not be included in an Insurer's filed premiums.

8.12 Reviews and inspections

- a) During any stage of the assessment or monitoring of an innovation, the Authority may appoint a suitably qualified third party to review any aspect of the application or implementation.
- b) The Authority is not obliged to give the Insurer a copy of the third party's report, but the Authority will not act on the third-party report to change the level of Innovation Support without first giving the Insurer an opportunity to comment on the report.
- c) The Authority may request the Insurer to allow access to its premises by the Authority or a third party undertaking a review for the purpose of assessment or monitoring or to enable the third party to conduct its review. The Authority will provide at least 1 week's notice of the proposed access. The Insurer must give the third party such assistance and documentation as is reasonably requested by the Authority or the third party to enable the third party to conduct its review.

8.13 Withdrawal, termination or amendment

- a) An Insurer may withdraw its application in writing at any time before the Authority issues a final approval.
- b) If an Insurer terminates the implementation of an innovation with final approval, it must notify the Authority within 21 days.

- c) An Insurer may apply to amend an innovation with final approval during its implementation. On receipt of an application to amend, the Authority may require the Insurer to re-submit the innovation for preliminary approval.

9. Calculations: Preliminary Industry Profit Margin

The Preliminary Industry Profit Margin will be calculated for each Accident Period, as at the Measurement Date.

Summary of notation used

Item	Description
n	Accident Period being assessed
t	Measurement Date
i	An individual third-party policy
f	An individual premium rate filing by an Insurer
a	individual Insurer being assessed

9.1 Preliminary Industry Profit Margin

The Preliminary Industry Profit Margin will be calculated in accordance with Table 9.1.

Table 9.1

Item	Formula / Description
Preliminary Industry Profit Margin (n,t)	= Preliminary Industry Profit (n,t) / Industry TEPL Earned Premium (n)
	Preliminary Industry Profit Margin in Accident Period n, measured as at t
Preliminary Industry Profit (n,t)	= Industry TEPL Earned Premium (n) - Industry Claim Payments (n,t) - Industry Outstanding Claims Liabilities (n,t) - Expenses (n)
	Preliminary Industry Profit in Accident Period n, measured as at t
Industry TEPL Earned Premium (n)	Value of Industry TEPL Earned Premium for Accident Period n

Item	Formula / Description
Industry Claim Payments (n,t)	The value of Industry Claim Payments to date for Accident Period n, measured as at t, discounted to the beginning of Accident Period n
Industry Outstanding Claims Liabilities (n,t)	The estimate of the Industry Outstanding Claims Liabilities for Accident Period n, measured as at t, discounted to the beginning of Accident Period n
Expenses (n)	Sum of Insurer Expenses for Accident Period n

The calculation of each of the inputs is described in more detail below.

9.2 Industry TEPL Earned Premium

Industry TEPL Earned Premium will be calculated in accordance with Table 9.2-1.

Table 9.2-1

Item	Formula / Description
Industry TEPL Earned Premium (n)	= Insurer TEPL Earned Premium (a,n), summed for all values of a
	Value of Industry TEPL Earned Premium for Accident Period n TEPL Earned Premium for each insurer in respect of Accident Period n, aggregated across all Insurers in the industry
Insurer TEPL Earned Premium (a,n)	= TEPL Earned Premium on policy (a,i,n), summed for all values of i
	Value of Insurer TEPL Earned Premium for Accident Period n TEPL Earned Premium for each Insurer a in respect of Accident Period n

9.3 Insurer TEPL Earned Premium

An Insurer may elect to calculate TEPL Earned Premium on the policies it issued (pursuant to section 2.5 of the Act) in accordance with clause 9.3(a) and submit the calculations to the Authority for review by the Scheme Actuary and use in subsequent calculations. Calculations must be received by the Authority within 11 months after the end of the Accident Period, in the manner and form as notified by the Authority from time to time for this purpose. For any Insurer from which calculations have not been received 11 months after the end of the Accident Period, the Authority will instruct the Scheme Actuary to proceed under clause 9.3(b) in relation to relevant policies.

Calculations given to the Authority under clause 9.3(a) must be signed off by the Insurer's auditor. The audit must be conducted on an Accident Period basis. The materiality level applied by the auditor must be 0.2% of Insurer TEPL Earned Premium for the Accident Period.

The Authority may audit the audited calculations received from an Insurer, the Insurer's process and methodology in respect of the calculations and the auditor's process and methodology in respect of the audit.

If the Authority is not satisfied that the methodology or process adopted by an Insurer to calculate its TEPL Earned Premium is appropriate, then it may instruct the Scheme Actuary to proceed under clause 9.3(b) in relation to relevant policies. The Authority will notify the Insurer before so instructing the Scheme Actuary.

a) Calculation of TEPL Earned Premium by Insurers

The following tables outline the method to be adopted by an Insurer electing to calculate TEPL Earned Premium on policies it issued.

TEPL Earned Premium on policies incepting on or after 1 December 2017

In respect of third-party policies incepting from 1 December 2017 onwards, TEPL Earned Premium on the policies issued by the Insurer must be calculated in accordance with the Table 9.3-1.

Table 9.3-1

Item	Formula / Description
TEPL Earned Premium on policy (i,n)	= (Written Premium (i) + REM amount (i)) x days exposed (i,n) / Policy term (i)
	TEPL Earned Premium on individual policy i, in respect of Accident Period n
Written Premium (i)	Written Premium on individual policy i Written Premium must include all actual premium adjustments relating to risk exposed during the relevant Accident Period, for example, premiums relating to unclosed business, policy amendments, cancellations and lapses. TEPL Earned Premium must not include any projected adjustments Only policies taken to have been issued by the Insurer and on risk are to be included in the calculation
REM amount (i)	The REM amount applicable on policy i. Positive REM amounts represent amounts received by an Insurer (i.e. withdrawal from the REM pool), negative REM amounts represent amounts paid by an Insurer (i.e. contributions to the REM pool)
Days exposed (i,n)	Number of days in which policy i was in-force in Accident Period n
Policy term (i)	Duration of policy i, measured in days (i.e. policy expiry date - policy inception date + 1)

TEPL Earned Premium on policies incepting before 1 December 2017

In respect of third-party policies incepting between 1 December 2016 and 30 November 2017 (inclusive), TEPL Earned Premium on an individual policy should be calculated in accordance with Table 9.3-2.

Table 9.3-2

Item	Formula / Description
TEPL Earned Premium on policy (i,n)	$= (\text{Written Premium (i)} + \text{REM amount (i)}) \times \text{days exposed (i, n)} / \text{policy term (i)} - \text{Gross Refund (i)}$
Written Premium (i)	Written Premium on individual policy i Written Premium must include all actual premium adjustments relating to risk exposed during the relevant the Accident Period, for example, premiums relating to unclosed business, policy amendments, cancellations and lapses. TEPL Earned Premium must not include any projected adjustments Only policies taken to have been issued by the Insurer and on risk are to be included in the calculation
REM amount (i)	The REM amount applicable on policy i. Positive REM amounts represent amounts received by an Insurer (i.e. withdrawal from the REM pool), negative REM amounts represent amounts paid by an Insurer (i.e. contributions to the REM pool)
Days exposed (i,n)	Number of days in which policy i was in-force in Accident Period n
Policy term (i)	Duration of policy i, measured in days (i.e. policy expiry date - policy inception date + 1)
Gross Refund (i)	Gross Refund calculated in respect of policy i, whether or not a premium refund has been claimed or paid in respect of that policy

b) Calculation of TEPL Earned Premium by the Scheme Actuary

Unless calculated and submitted by an Insurer in accordance with clause 9.3(a), TEPL Earned Premium for an Insurer will be calculated in accordance with Tables 9.3-3 and 9.3-4.

TEPL Earned Premium on policies incepting on or after 1 December 2017

In respect of third-party policies incepting from 1 December 2017 onwards, TEPL Earned Premium on the policies issued by an Insurer will be calculated in accordance with Table 9.3-3.

Table 9.3-3

Item	Formula / Description
TEPL Earned Premium on policy (i,n)	$= (\text{Written Premium (i)} + \text{REM amount (i)}) \times \text{days exposed (i,n)} / \text{Policy term (i)}$
	TEPL Earned Premium on individual policy i, in respect of Accident Period n
Written Premium (i)	<p>Written Premium on individual policy i sourced from individual policy data held in the UPD</p> <p>Days exposed will be based on the policy inception dates and policy expiry dates as appearing in the UPD</p> <p>Written Premium must include all actual premium adjustments relating to risk exposed during the relevant the Accident Period, for example, premiums relating to unclosed business, policy amendments, cancellations and lapses. TEPL Earned Premium must not include any projected adjustments</p> <p>Only policies taken to have been issued by the Insurer and on risk are to be included in the calculation</p>
REM amount (i)	The REM amount applicable on policy i. Positive REM amounts represent amounts received by an Insurer (i.e. withdrawal from the REM pool), negative REM amounts represent amounts paid by an Insurer (i.e. contributions to the REM pool)
Days exposed (i,n)	Number of days in which policy i was in-force in Accident Period n
Policy term (i)	Duration of policy i, measured in days (i.e. policy expiry date - policy inception date + 1)

TEPL Earned Premium on policies incepting before 1 December 2017

In respect of third-party policies incepting between 1 December 2016 and 30 November 2017 (inclusive), TEPL Earned Premium on the policies issued by an Insurer will be calculated in accordance with Table 9.3-4.

Table 9.3-4

Item	Formula / Description
TEPL Earned Premium on policy (i,n)	$= (\text{Written Premium (i)} + \text{REM amount (i)}) \times \text{days exposed (i,n)} / \text{policy term (i)} - \text{Gross Refund (i)}$
	TEPL Earned Premium on individual policy i, in respect of Accident Period n
Written Premium (i)	<p>Written Premium on individual policy i sourced from individual policy data held in the UPD</p> <p>Days exposed will be based on the policy inception dates and policy expiry dates as appearing in the UPD</p>

Item	Formula / Description
	<p>Written Premium must include all actual premium adjustments relating to risk exposed during the relevant the Accident Period, for example, premiums relating to unclosed business, policy amendments, cancellations and lapses. TEPL Earned Premium must not include any projected adjustments</p> <p>Only policies taken to have been issued by the Insurer and on risk are to be included in the calculation</p>
REM amount (i)	The REM amount applicable on policy i. Positive REM amounts represent amounts received by an Insurer (i.e. withdrawal from the REM pool), negative REM amounts represent amounts paid by an Insurer (i.e. contributions to the REM pool)
Days exposed (i,n)	Number of days in which policy i was in-force in Accident Period n
Policy term (i)	Duration of policy i, measured in days (i.e. policy expiry date - policy inception date + 1)
Gross Refund (i)	Gross Refund calculated in respect of policy i, whether or not a premium refund has been claimed or paid in respect of that policy

9.4 Industry Claim Payments

Industry Claim Payments as at the Measurement Date will be calculated by Accident Period, from data sourced from the UCD, in accordance with Table 9.4.

Table 9.4

Item	Formula / Description
Industry Claim Payments (as at the Measurement Date) (n,t)	<p>= Total Claim Payments made as at time t by all Insurers across all claims arising out of accidents occurring in Accident Period n, with the cashflow discounted to the beginning of Accident Period n</p> <p>The value of Industry Claim Payments for Accident Period n, measured as at time t, discounted to the beginning of Accident Period n</p> <p>Claim Payments will be discounted to the beginning of the Accident Period using risk-free discount rates derived from yields of Commonwealth Government securities. The risk-free term structure will reflect the yields available to Insurers on the premiums earned for the Accident Period. The Scheme Actuary will determine the risk-free term structure applicable for a given Accident Period. The application of discounting will be consistent with standard actuarial practice</p>

9.5 Industry Outstanding Claims Liabilities

The Industry Outstanding Claims Liabilities as at the Measurement Date will be calculated by Accident Period in accordance with Table 9.5.

Table 9.5

Item	Formula / Description
Industry Outstanding Claims Liabilities (n,t)	= Total estimated future Claim Payments for all Insurers as at time t, that relate to accidents occurring in Accident Period n, with the cash flow discounted to the beginning of Accident Period n
	The estimate of the Industry Outstanding Claims Liabilities for Accident Period n, measured as at t, discounted to the beginning of Accident Period n

- a) In relation to estimated future Claim Payments:
 - i) estimated future Claim Payments will provide for claims incurred but not yet reported;
 - ii) future Claim Payments estimated for a given Accident Period will include an allowance for future claims escalation due to wage inflation, price inflation or other environmental causes (e.g. superimposed inflation) and be discounted to the beginning of the Accident Period, using the risk-free term structure that reflects the yields available to Insurers on the premiums earned for the Accident Period.
- b) In relation to the determination or valuation of Industry Outstanding Claims Liabilities:
 - i) Industry Outstanding Claims Liabilities will be determined by the Scheme Actuary on a central estimate basis (i.e. neither deliberately overstated for conservatism nor understated due to optimism);
 - ii) valuation of the Industry Outstanding Claims Liabilities will be conducted by the Scheme Actuary using actuarial methods that are suitable for the nature of the CTP business and the maturity of the Accident Period at the Measurement Date. The valuation conducted will be consistent with the Actuarial Professional Standards where not inconsistent with these Guidelines.

9.6 Expenses

The allowance for Expenses will be calculated by Accident Period in accordance with Table 9.6-1.

Table 9.6-1

Item	Formula / Description
Expense Ratio (n)	= Sum of Insurer Expenses in Accident Period n divided by Industry TEPL Earned Premium in Accident Period n

Item	Formula / Description
	Expense Ratio in Accident Period n
Sum of Insurer Expenses (n)	= Claims Handling Expenses (n) + Acquisition and Policy Expenses (n) + Notional Reinsurance Expenses (n)
	Measured across the industry, value of Claims Handling Expenses, Acquisition and Policy Expenses and Notional Reinsurance Expenses for Accident Period n

- a) Data for estimating Claims Handling Expenses and Acquisition and Policy Expenses will be sourced from the expense assumptions expressed as a percentage of Written Premium, as disclosed in the relevant Insurer's relevant premium rate filing specifying an expense assumption. The Insurer's relevant premium rate filing is the filing that applied at the time that an individual policy was issued.
- b) For policies issued before 1 December 2017, the expense assumptions will be taken from the 1 December 2017 premium filing.
- c) In relation to Claims Handling Expenses, an Insurer must notify the Authority in writing if it changes its claim handling practices in a way, or to an extent, that would materially affect the expense assumptions disclosed in the Insurer's premium rate filings. The Scheme Actuary may adjust an Insurer's estimated Claims Handling Expenses as a result of such a change.

Expenses will be converted to a total dollar expense per policy allowance for each Accident Period in accordance with Table 9.6-2.

Table 9.6-2

Item	Description / Formula
Claims Handling Expenses (n)	Total dollar Claims Handling Expenses for Accident Period n
	= Claims Handling Expenses (i,n) summed across all policies
Claims Handling Expenses (i,n)	Dollar Claims Handling Expenses for policy i, in respect of Accident Period n
	= Claims Handling Expenses % (f) x TEPL Earned Premium on policy (i,n)
Claims Handling Expenses % (f)	Claims Handling Expenses percentage corresponding to premium rate filing f that was effective for the Insurer that issued policy i
Acquisition and Policy Expenses (n)	Total dollar Acquisition and Policy Expenses loading for Accident Period n
	= Acquisition and Policy Expenses (i,n) summed across all policies

Item	Description / Formula
Acquisition and Policy Expenses (i,n)	Dollar Acquisition and Policy Expenses for policy i, in respect of Accident Period n
	= Acquisition and Policy Expenses % (f) x TEPL Earned Premium on policy (i,n)
Acquisition and Policy Expenses % (f)	Acquisition and Policy Expenses percentage corresponding to premium rate filing f that was effective for the Insurer that issued policy i
Notional Reinsurance Expense (n)	Total dollar Notional Reinsurance Expense loading for Accident Period n
	= Notional Reinsurance Expense (i,n) summed across all policies
Notional Reinsurance Expense (i,n)	Notional Reinsurance Expense for policy i, in respect of Accident Period n. The same amount applies to all policies for all Insurers

10. Calculations: Reassessed Industry Profit Margin

Reassessed Industry Profit Margin will be calculated for each Accident Period, as at the Measurement Date.

The estimation of industry and individual profit margins is an estimate made at the Measurement Date of the ultimate position.

Summary of notation used

Item	Description
n	Accident Period being assessed
t	Measurement Date
a	individual Insurer being assessed

10.1 Insurer Profit Margin

The Insurer Profit Margin before deducting Innovation Support will be calculated in accordance with Table 10.1-1.

Table 10.1-1

Item	Formula / Description
Insurer Profit Margin before deducting Innovation Support (a,n,t)	= Insurer Profit (a,n,t) / Insurer TEPL Earned Premium (a,n)
	Profit Margin for Insurer a, in Accident Period n, measured as at t, before deducting any Innovation Support
Insurer Profit (a,n,t)	= Insurer TEPL Earned Premium (a,n) - Claim Payments (a,n,t) - Outstanding Claims Liabilities (a,n,t) - Insurer Expenses (a,n)
	Profit for Insurer a, in Accident Period n, measured as at t, before deducting any Innovation Support
Insurer TEPL Earned Premium (a,n)	Value of TEPL Earned Premium for Insurer a, for Accident Period n
Claim Payments (a,n,t)	The value of Claim Payments for Insurer a, for Accident Period n, measured as at t, discounted to the beginning of Accident Period n

Item	Formula / Description
	<p>Claim Payments in relation to sharing and nominal defendant claims will be considered to the extent that they are reflected in the UCD</p> <p>See 9.4 for detail relating to the calculation of Claim Payments (with necessary adjustments to accommodate calculation of Claim Payments for individual Insurers)</p>
Outstanding Claims Liabilities (a,n,t)	<p>The estimate of the Outstanding Claims Liabilities for Insurer a, for Accident Period n, measured as at t, discounted to the beginning of Accident Period n</p> <p>See clause 9.5 for detail relating to the calculation of Outstanding Claims Liabilities (with necessary adjustments to accommodate calculation of Outstanding Claims Liabilities for individual Insurers)</p>
Insurer Expenses (a,n)	= Expense Ratio from Table 9.6-1 multiplied by Insurer TEPL Earned Premium for Insurer a, for Accident Period n
	Value of Insurer Expenses for Insurer a for Accident Period n

The Insurer Profit Margin after deducting Innovation Support will be calculated in accordance with Table 10.1-2.

Table 10.1-2

Item	Formula / Description
Insurer Profit Margin after deducting Innovation Support (a,n,t)	<p>If:</p> <p>(a) Industry Profit before deducting Innovation Support (n,t) > Excess Profit Threshold; and</p> <p>(b) Insurer Profit Margin before deducting Innovation Support (a,n,t) > Benchmark Profit Margin, then</p> <p>= Insurer Profit Margin before deducting Innovation Support (a,n,t) – Innovation Support (a,n,t), subject to a minimum of the Benchmark Profit Margin</p> <p>Else</p> <p>= Insurer Profit Margin before deducting Innovation Support (a,n,t)</p>
	Profit Margin for Insurer a, in Accident Period n, measured as at t, after deducting any Innovation Support for Insurer a. The Insurer Profit Margin after deducting Innovation Support cannot be adjusted to be less than the Benchmark Profit Margin

Item	Formula / Description
Innovation Support (a,n,t)	If Industry Profit before deducting Innovation Support (n,t) > Excess Profit Threshold and Insurer Profit Margin before deducting Innovation Support > Benchmark Profit Margin, then = Innovation Support for Insurer a, in respect of Accident Period n, measured at time t, else = 0

The Insurer Profit after deducting Innovation Support will be calculated in accordance with Table 10.1-3.

Table 10.1-3

Item	Formula / Description
Insurer Profit after deducting Innovation Support (a,n,t)	= Insurer Profit Margin after deducting Innovation Support (a,n,t) x Insurer TEPL Earned Premium (a,n,t)
	Profit for Insurer a, in Accident Period n, measured as at t, after deducting Innovation Support

10.2 Reassessed Industry Profit Margin

The Reassessed Industry Profit Margin will be calculated in accordance with Table 10.2.

Table 10.2

Item	Formula / Description
Reassessed Industry Profit (n,t)	= Insurer Profit after deducting Innovation Support (a,n,t) summed across all Insurers
	Sum of Profit across all Insurers in Accident Period n, measured as at t, after deducting Innovation Support
Reassessed Industry Profit Margin (n,t)	= Reassessed Industry Profit (n,t) / Industry TEPL Earned Premium (n)
	Reassessed Industry Profit Margin in Accident Period n, measured as at t

10.3 Industry Excess Profit or Loss

a) Industry Excess Profit Margin

Industry Excess Profit will be calculated in accordance with Table 10.3-1.

Table 10.3-1

Item	Formula / Description
Industry Excess Profit Margin (n,t)	If Reassessed Industry Profit Margin (n,t) > Excess Profit Threshold, then = Reassessed Industry Profit Margin (n,t) - Excess Profit Threshold, else = 0
	Industry Excess Profit in Accident Period n, measured as at t
Industry Excess Profit (n,t)	= Industry Excess Profit Margin (n, t) x Industry TEPL Earned Premium (n)
	Total dollar value of Industry Excess Profit in Accident Period n, measured as at t

b) Industry Excess Loss Margin

Industry Excess Loss will be calculated in accordance with Table 10.3-2.

Table 10.3-2

Item	Formula / Description
Industry Excess Loss Margin (n,t)	If Reassessed Industry Profit Margin (n,t) < Excess Loss Threshold, then = Excess Loss Threshold - Reassessed Industry Profit Margin (n,t), else = 0
	Industry Excess Loss in Accident Period n, measured as at t
Industry Excess Loss (n,t)	= Industry Excess Loss Margin (n,t) x Industry TEPL Earned Premium (n)
	Total dollar value of Industry Excess Loss in Accident Period n, measured as at t

10.4 Individual Insurer Excess Profit or Loss

a) Insurer Excess Profit

Insurer Excess Profit will be calculated in accordance with Table 10.4-1.

Table 10.4-1

Item	Formula / Description
Insurer Excess Profit (a,n,t)	= Qualifying Insurer Excess Profit (a, n) / Qualifying Industry Excess Profit (n) x Industry Excess Profit (n,t)
	Insurer a's share of the Industry Excess Profit, for Accident Period n, measured at time t
Qualifying Insurer Excess Profit (a,n,t)	If Insurer Profit Margin after deducting Innovation Support (a,n,t) > Benchmark Profit Margin, then = (Insurer Profit Margin after deducting Innovation Support (a,n,t) - Benchmark Profit Margin) x Insurer TEPL Earned Premium (a,n), else = 0
	The value of Excess Profit for Insurer a that exceeds the Benchmark Profit Margin, for Accident Period n, measured at time t
Qualifying Industry Excess Profit (n,t)	= sum of Qualifying Insurer Excess Profit (a,n,t)
	Sum of Qualifying Insurer Excess Profit across all Insurers, for Accident Period n, measured at time t

b) Insurer Excess Loss

Insurer Excess Loss will be calculated in accordance with Table 10.4-2.

Table 10.4-2

Item	Formula / Description
Insurer Excess Loss (a,n,t)	= Qualifying Insurer Excess Loss (a,n) / Qualifying Industry Excess Loss (n) x Industry Excess Loss (n,t)
	Insurer a's share of the Industry Excess Loss, for Accident Period n, measured at time t
Qualifying Insurer Excess Loss (a,n,t)	If Insurer Profit Margin (a,n,t) < Benchmark Profit Margin, then = (Benchmark Profit Margin - Insurer Profit Margin) (a,n,t) x Insurer TEPL Earned Premium (a,n), else = 0
	The value of Excess Loss for Insurer a that is below the Benchmark Profit Margin, for Accident Period n, measured at time t
Qualifying Industry Excess Loss (n,t)	= sum of Qualifying Insurer Excess Loss (a,n,t)
	Sum of Qualifying Insurer Excess Loss across all Insurers, for Accident Period n, measured at time t

10.5 Profit normalisation

The Scheme Actuary will calculate the notional Insurer Profit Margin in respect of the relevant Accident Period after payments into or out of the Authority Fund in respect of transitional excess loss or transitional excess profit.

a) Industry Excess Profit

In an Industry Excess Profit situation, an individual Insurer's Profit Margin after being normalised will be calculated in accordance with Table 10.5-1.

Table 10.5-1

Item	Formula / Description
Insurer Profit Margin after profit normalisation (a,n,t)	= (Insurer Profit after deducting Innovation Support (a,n,t) - Insurer Excess Profit (a,n,t)) / Insurer Earned Premium (a,n)
	Adjusted Profit Margin for Insurer a after Profit Normalisation, for Accident Period n, measured at time t

b) Industry Excess Loss

In an Industry Excess Loss situation, an individual Insurer's Profit Margin after being normalised will be calculated in accordance with Table 10.5-2.

Table 10.5-2

Item	Formula / Description
Insurer Profit Margin after profit normalisation (a,n,t)	= (Insurer Profit after deducting Innovation Support (a,n,t) + Insurer Excess Loss (a,n,t)) / Insurer Earned Premium (a,n)
	Adjusted Profit Margin for Insurer a after Profit Normalisation, for Accident Period n, measured at time t

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