

Actuarial Assessment of the recommendations of the Ipp Report

Chris Latham and Michael Playford,
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Overview

- The 61 recommendations
- Uncertainty
- Personal injury claim cost savings
- Public liability claim cost savings
- Issues for States and Territories
- Category B recommendations
- The question of permanence
- The effect on insurance premiums

The 61 recommendations

- We have identified 3 categories:
 - A: Those which can be formally costed (16)
 - B: Those expected to affect cost but cannot be formally assessed (28)
 - C: Those supporting the others, but largely administrative (17)
- Category B constrained by lack of data, but also because many do not represent tractable mathematical problems.

Uncertainty

There is a high degree of uncertainty in any estimates of this nature.

Reasons:

- The legislative wording may be ambivalent
- Judicial interpretation is untested
- Claimants' behaviour is not predictable
- The data available is not extensive

In the circumstances we have derived our best estimates of the effect of the recommendations. In doing so we have drawn upon our experience in costing similar changes elsewhere, and observations of the eventual outcome.

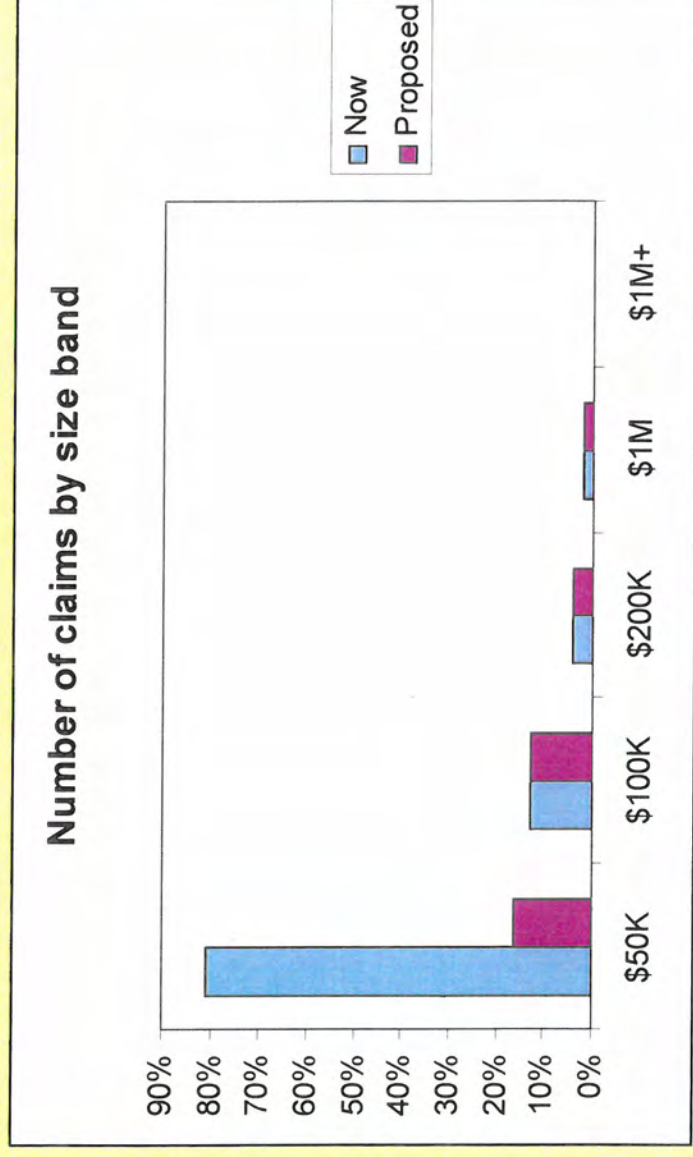
However, the range of possible outcomes is large.

Personal injury claim cost savings – Category A recommendations

Recom	Proposal	Straight change	Assuming elimination of small claims
45	Reduced Legal Fees	2.1%	10.1%
46	Tariff for General Damages		
47&48	15% Threshold & Cap for General Damages	4.7%	4.7%
49&58	Cap on Damages for LOEC	-0.4%	0.6%
50	Health Care Costs	0.1%	0.7%
51&52	Gratuitous care restrictions	0.8%	0.8%
53	Future Economic Loss, discount rate		
54	Interest to Judgement	2.7%	2.7%
55&56	Death claims restrictions		
59&60	Collateral benefits, exemplary damages		
61	Indexation		
Total		10.0%	19.6%

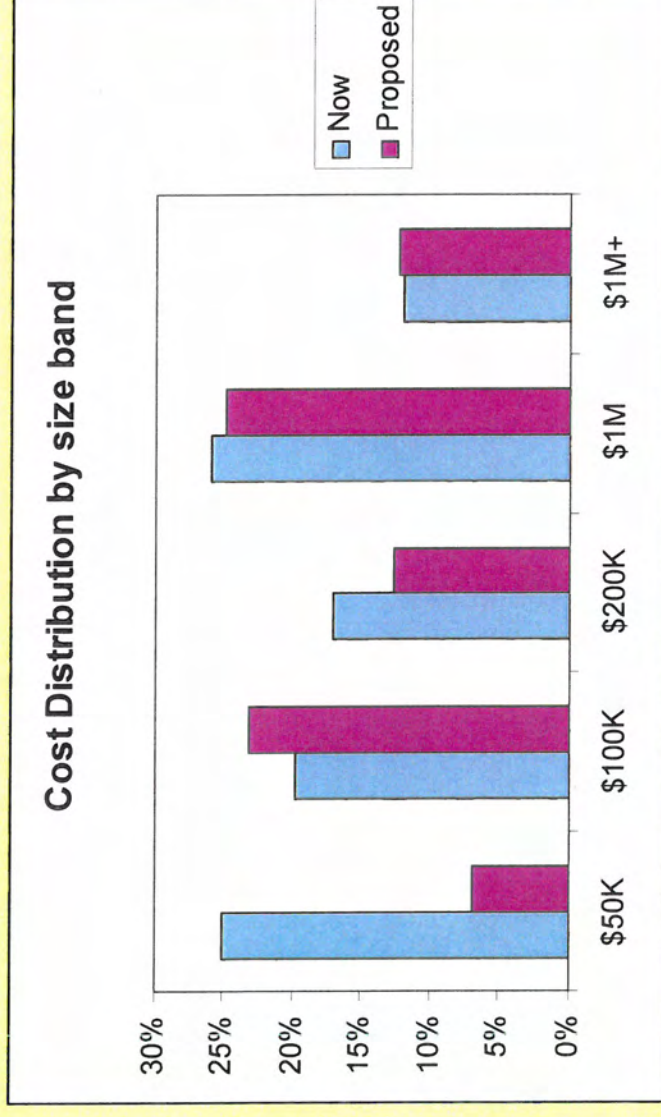
- These are intended as “central” estimates of the likely reductions, relative to the 30 June 2001 environment.
- Almost half estimated savings is from indirect effect of eliminating small claims.
- These are *immediate* reductions. Permanence is an issue.

Cost savings – recommendations should eliminate many smaller claims



- An effective General Damages threshold should eliminate most small claims *(AMA guidelines)*
- Message reinforced by restrictions on plaintiff legal costs

Cost savings – by claim size



- Most cost savings is from smaller claims
- Claims > \$200K little affected by recommendations

Estimated savings to public liability claims costs

- Personal injury claims represent about 75% of public liability claim cost (*25% property claims*)
- Thus, Category A recommendations may achieve the following savings
 - 19.6% savings in personal injury claim cost
 - 14.7% savings in public liability claim cost

Other Scenarios considered

Important to consider robustness of the calculations. For example

- Differences in claim profile between jurisdictions
- Uncertainty in the assumptions selected
- Differences in outcomes of the reforms from that assumed

We have considered variations such as:

Assumption	Central Estimate	Range Considered	Max	Min
Mix of personal injury to property claims	75:25	50:50 ^{states} & 60:40 & 80:20 ^{NSW}	15.7%	11.8%
% of claims < \$50,000	80%	75% to 85%	16.7%	14.6%
Average size within each size band		+/- 20%	17.4%	10.6%
Maximum General Damages (GD) amount	\$250,000	\$350,000		8.2%
GD experience beneath maximum	adjusted NSW	SA CTP Scale	14.7%	10.7%
Proportion of small claims eliminated	80%	60%, 40% & 0%		7.5%
Legal costs		plaintiff=defendant	15.3%	
Gratuitous care head of damage		double in importance	15.3%	
Gratuitous care savings	33%	50%	15.0%	
Combination of pessimistic assumptions				7.0%

- Conclusion: Even in most pessimistic scenarios there is still material savings in public liability claim costs

Issues for States and Territories

- Costings based on Australia-wide data. Claims distributions by size and number will vary by jurisdiction.
- Not as significant as might be expected. The elimination of small claims should still occur.
- Some jurisdictions have already effected their own reforms since June 2001, others are in the pipeline.
- Many reforms are consistent with Ipp, but some go further (discount rates). The cost reductions in our report will be less to the extent of these reforms.

Category B recommendations

- Some (16) may reduce numbers of claims by tighter definitions of negligence. The reductions could be significant, but depend on judicial interpretation.
- Some (6) may reduce quanta of claims e.g contributory negligence and causation. Probably not as significant as for numbers.
- Some (6) will not reduce *current* costs, but may prevent/reduce *future* increases in costs. *A, punitive damages.*
- All are important, and could result in significant reductions in costs. At the very least they will reinforce the effect of the Category A recommendations.
- However, their effect may be short-term only-as judicial interpretation changes over time. The effect may need future reinforcement.

The question of permanence

- Past experience suggests that the immediate effect of the recommendations will be eroded.
- Most likely to come from a weakening of the General Damages threshold.
- The key questions are when and by how much.
↳ recommendations may have a longer lasting effect.
- Eternal vigilance is needed.

The effect on insurance premiums (1)

Real world.

- Public liability premiums are not regulated. They are subject only to market forces.
- If insurers' premiums are already inadequate, then reductions in costs will be seen as a chance to reduce losses.
- The form of implementation of recommendations is important. There is the prospect of "windfall" gains where some degree of retrospectivity is involved.
- Claims cost reductions will vary for different mixes of business.
- The responses of insurers will vary.

Not a 1:1 correspondence b/c claims costs & premiums.

The effect on insurance premiums (2)

Theoretical world.

- Assuming no retrospectivity, and if premiums respond fully to estimated cost reductions- average public liability premiums might reduce by around 13.5%.
- The corresponding reduction in medical indemnity might be 15% to 18%.
- Insurers' actuaries will take different views on the immediate effect of the recommendations. However, once determined, these views are likely to respond to experience only slowly (the "honeymoon" effect).
- Insurance management will make the final decisions on premiums.

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