

Injury Schemes Seminar

Balancing Outcomes

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Large Claims Cost in Workers' Compensation

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What you have to look forward to:

- Introduction
- General background of data used
- Frequency of large claims at various levels
- Cost as % of remuneration at various levels
- Cost of large claims compared to premiums
- Comparison to excess of loss premiums for self-insurers
- Variations by industry
- Conclusion and possible future work



Introduction

- All about large claims from \$250,000 to over \$2M
 - In current values at June 2013 on past AWE indexation
- Large claim defined as:
 - Incurred cost (paid to date + statistical case estimate (SCE)) exceeds a certain limit
- High level analysis of their frequency and size distribution
- Taken from WorkSafe Victoria experience for insured employers
- Comparison to the average charged premium rates
- Comparison to the excess of loss premiums charged in market to self-insurers
- Variation of experience by industry

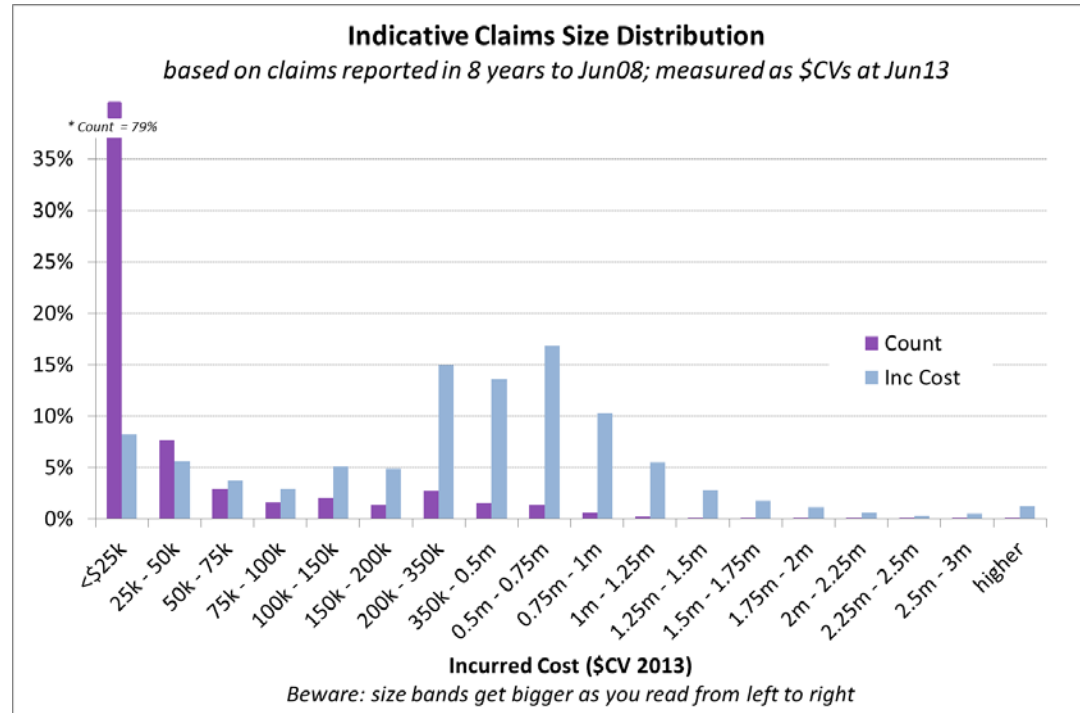


Background of data

- Victorian benefit structure: No fault benefits plus common law for economic loss and pain & suffering for serious injury
- Claims are scheme insured claims from the report years 2000/01 to 2007/08
- Currently about 28,000 claims per annum
- Number of large claims in our study total almost 14,000 above \$250,000 across the 8 years combined, and just over 100 claims above \$2M
- We have sought to use data over long period to get reasonable number of claims for the analysis
- And at least 5 years development to reduce the uncertainty about the number and size of the larger claims
- Market XOL premium rates used drawn from a small sample of self-insurers



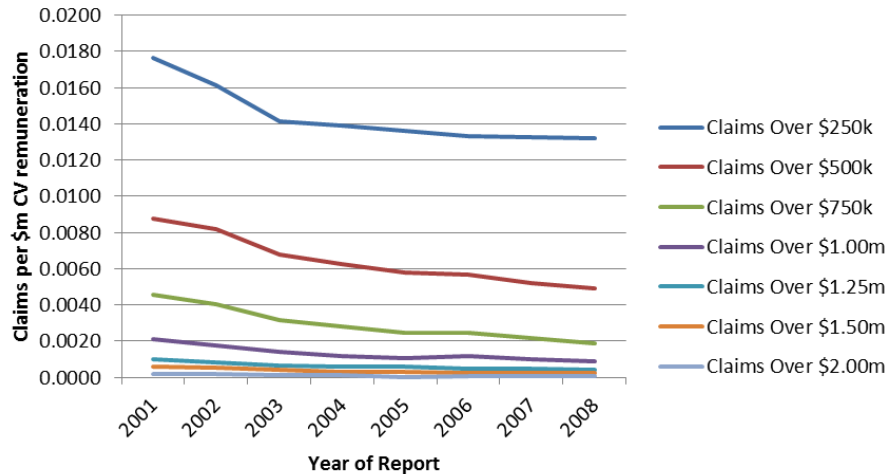
Distribution of all reported claims



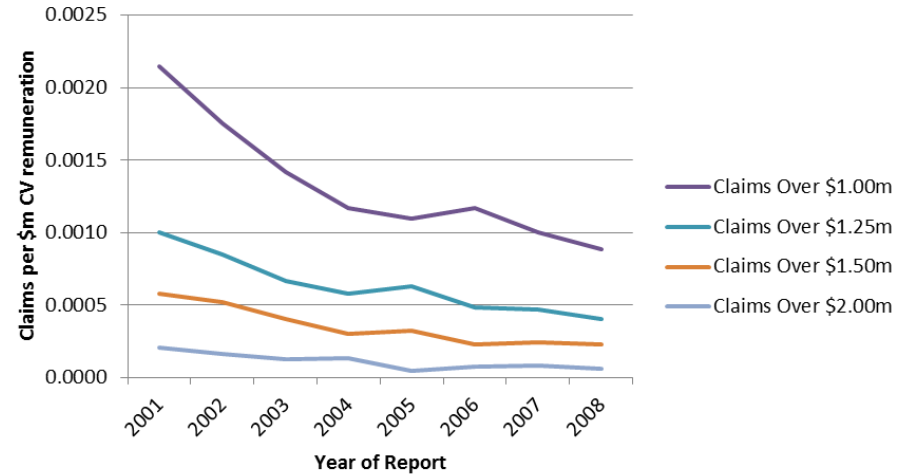


Frequency showing downward trend over time

Large Claims Frequency



Large Claims Frequency (Above \$1m)



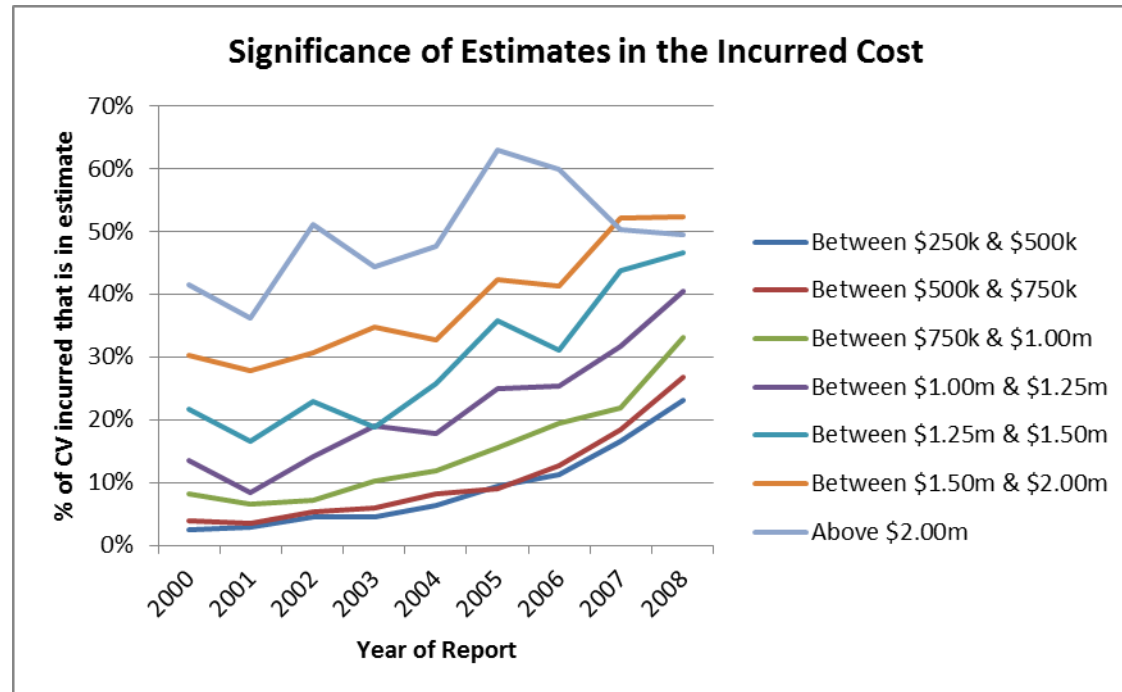


What is happening with frequency?

- The charts show a decreasing frequency over time
- Is changing workforce impacting experience?
 - Contraction of manufacturing industry; increase in service industry
 - Further analysis would be needed to determine impact
- Scheme changes over time impacting experience?
- Improved OH&S – good news story
- Improved claims management – another good news story
- Possible under-declaration of remuneration in past years – data issue
- Uncertainty over the estimated ultimate cost for individual cases – model issue



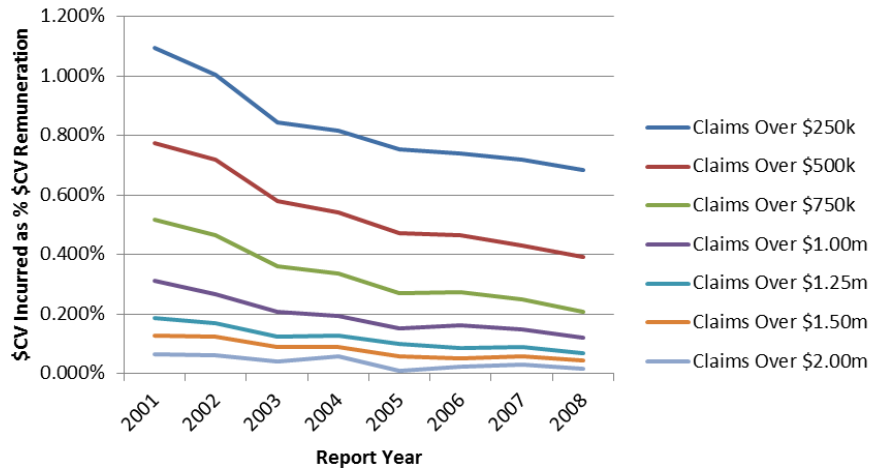
What is SCE amount to total incurred cost?



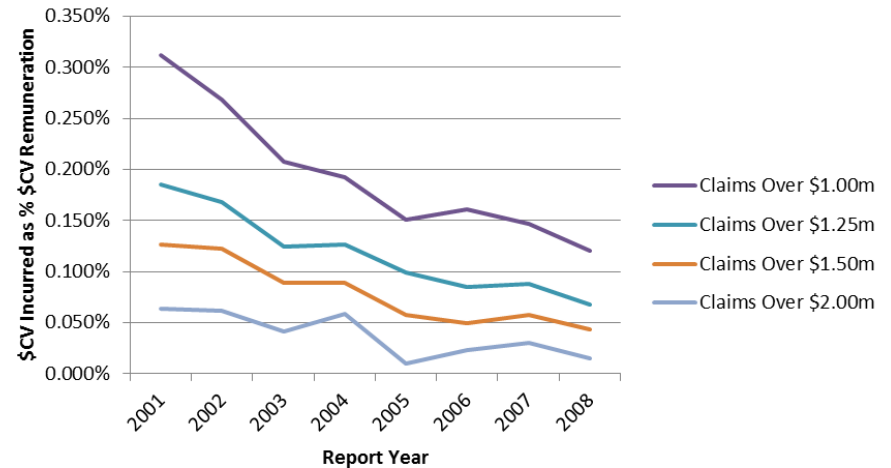


Large claim cost also reducing over time

Large Claims Cost (\$CV as % \$CV Rem)



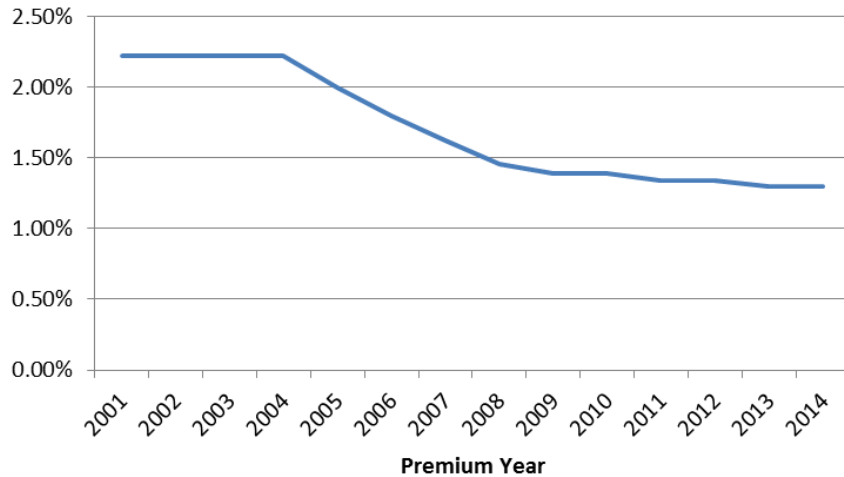
Large Claims Cost (\$CV as % \$CV Rem): Claims over \$1m



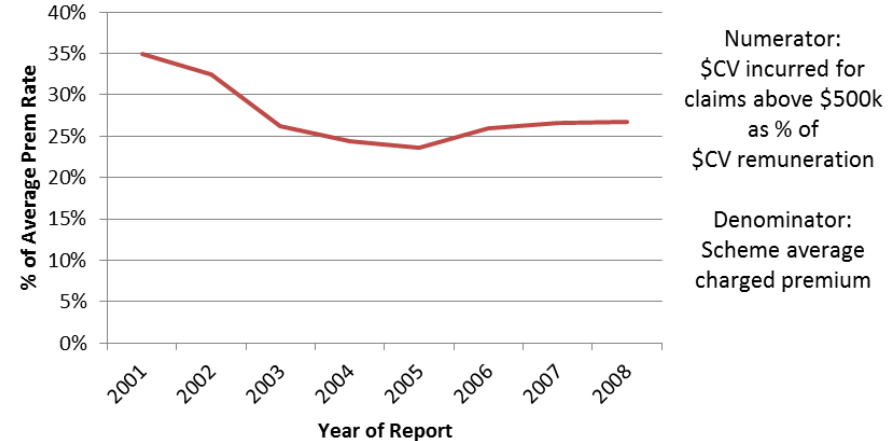


Premium rates and comparison to \$500K+ claims

Average Premium Rate Levied



Cost for Claims above \$500k compared to Average Premium Rate





Comments on premium rates & comparison

- Premium have seen a steady fall from 2003/04
- No explicit deficit or funding levy on premiums in the period shown
- In hindsight premiums in earlier years shown (2000/01+) may have been higher than breakeven (pricing uncertainty with restoration of common law in 1999)
- Hanks review led to benefit improvements in 2010; cost absorbed without increase in average charged premium rate

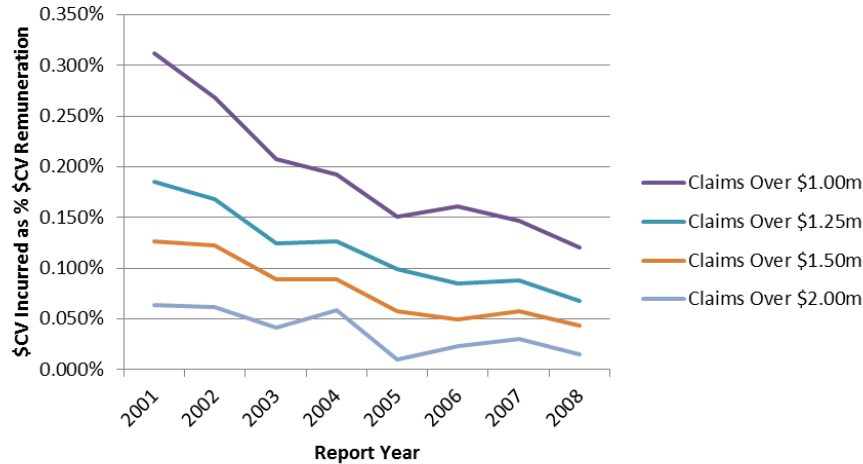
Comparison of large claims rate and average charged rate

- Chart shows ratio to charged rate; share of risk premium would be higher
 - E.g. If CV loss ratio at 75% then 25% of premium is 33% of risk premium
- Suggests 2% to 3% of claims by number might account for 33% of risk premium

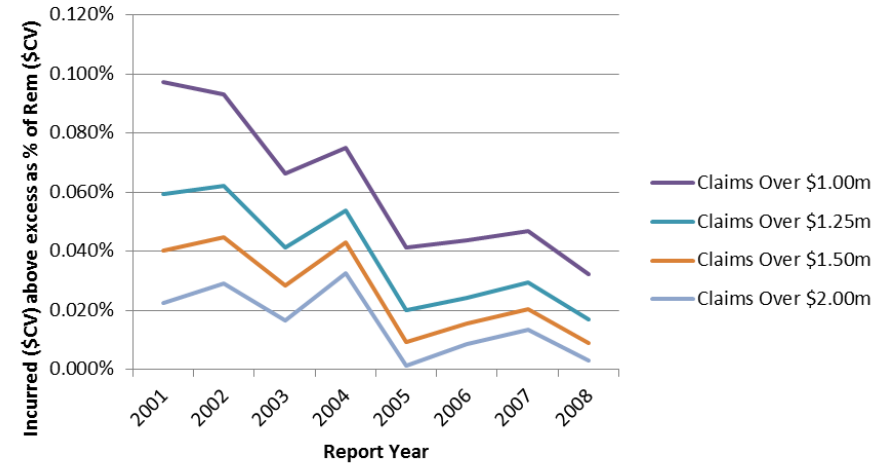


Comparison of overall cost and excess cost

Large Claims Cost (\$CV as % \$CV Rem): Claims over \$1m



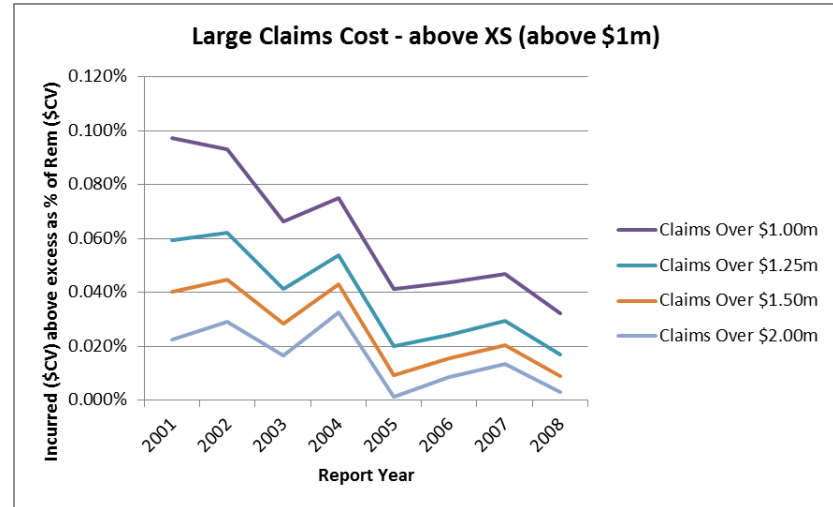
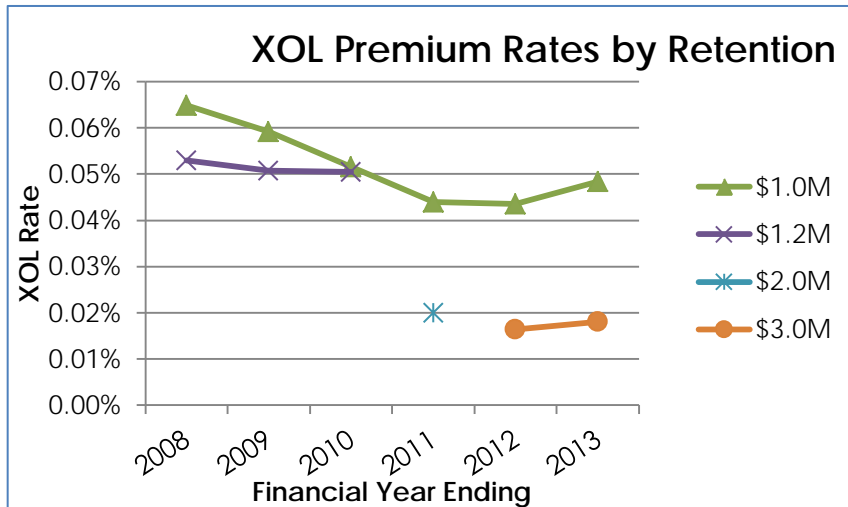
Large Claims Cost - above XS (above \$1m)





Comparison: XOL rates and Scheme "XOL" cost

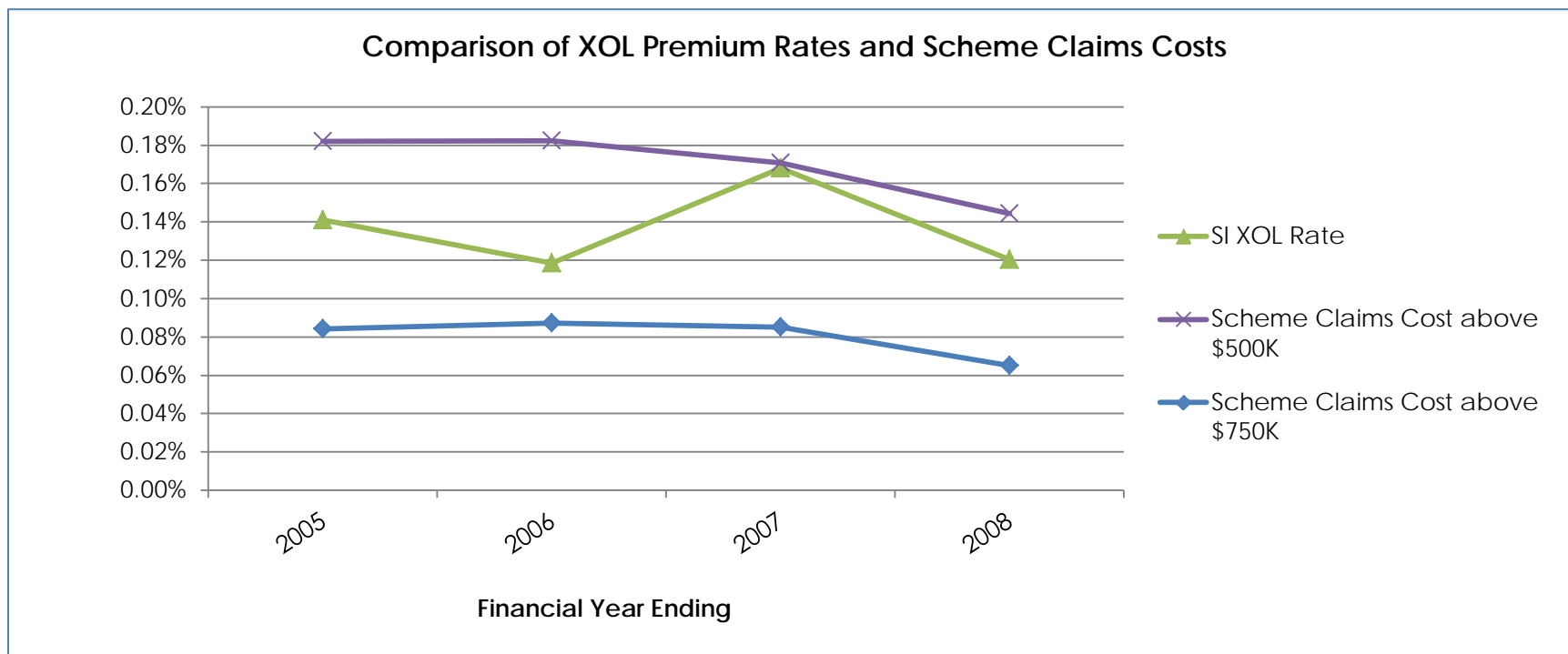
Part 1 – \$1 million & above





Comparison: XOL rates and Scheme "XOL" cost

Part 2 – \$500k



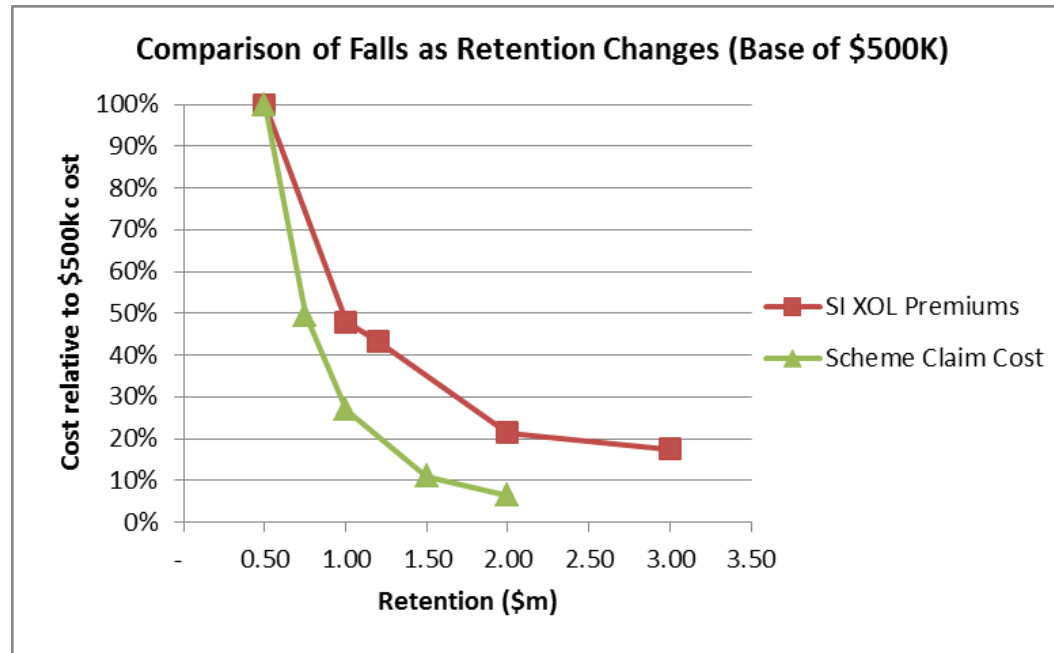


Comments on the comparison

- XOL policies with same retention are not in current dollar values
- XOL premium includes expenses/profit margin/allowance for investment earnings
- Industry underlying the XOL rate may not be consistent with average of scheme costs
- However change over time may be able to be compared



Fall in costs as excess increases





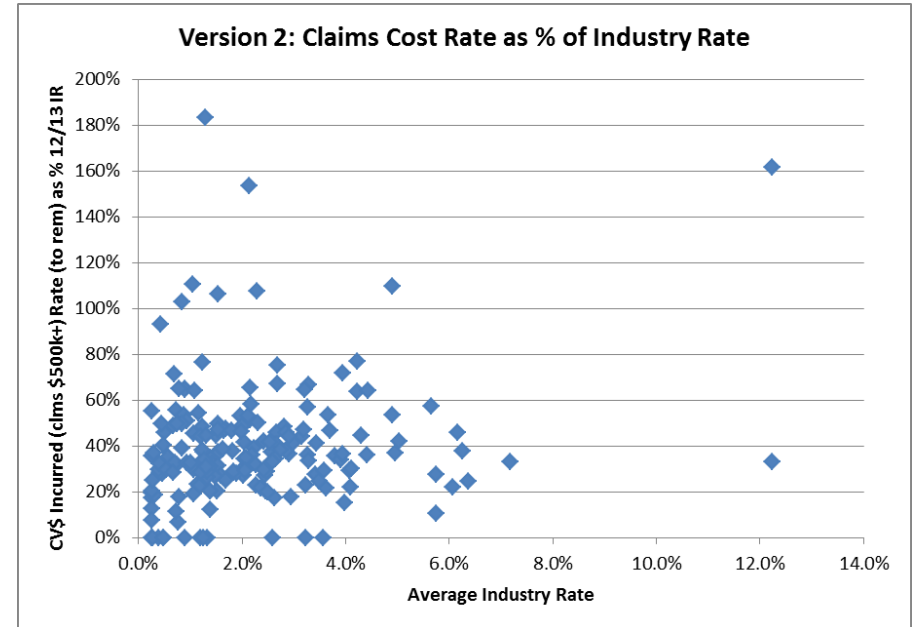
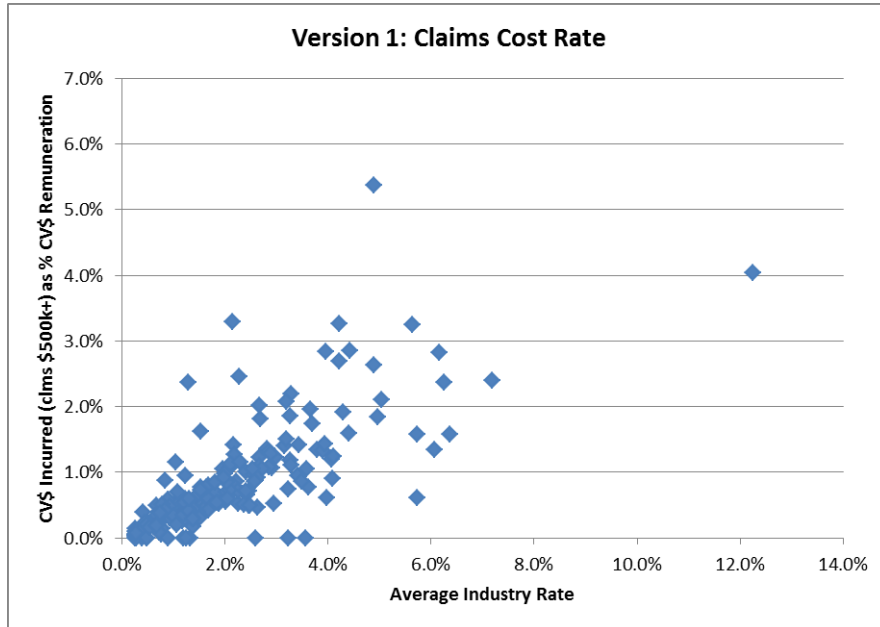
Comments on changes as excess increases

- XOL premiums need to allow for event risks
- XOL premium would have loadings that may not change in proportion to the underlying risk
- XOL premiums at different excess levels may not be directly consistent – i.e. different companies/industries
- We see that:
 - the scheme risk cost falls by nearly 75% when the excess increases from \$500K to \$1M, compared with a fall of about 50% for the XOL premium
 - the scheme risk cost falls by 93% when the excess increases from \$500K to \$2M, compared with a fall of about 79% for the XOL premium



Differences by industry

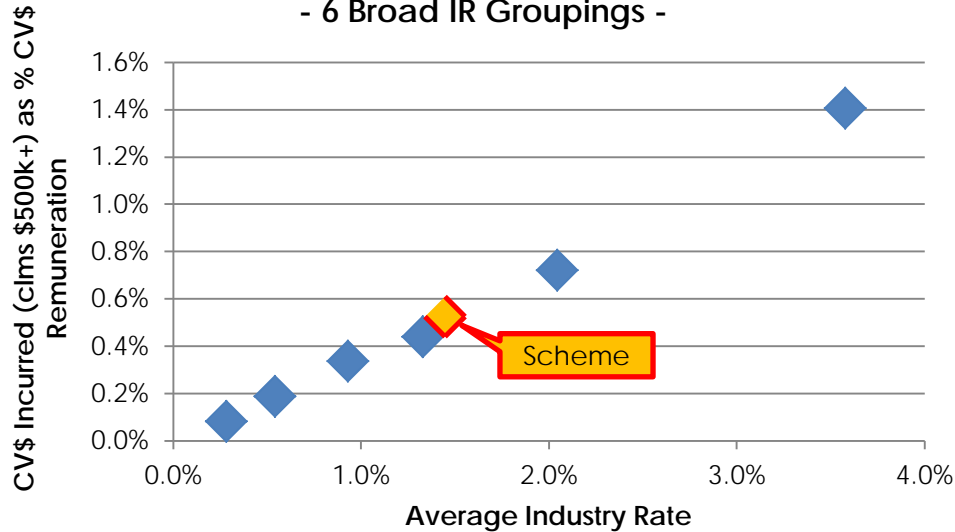
Illustration of relationship between large claims experience and 2012/13 Industry Premium Rate



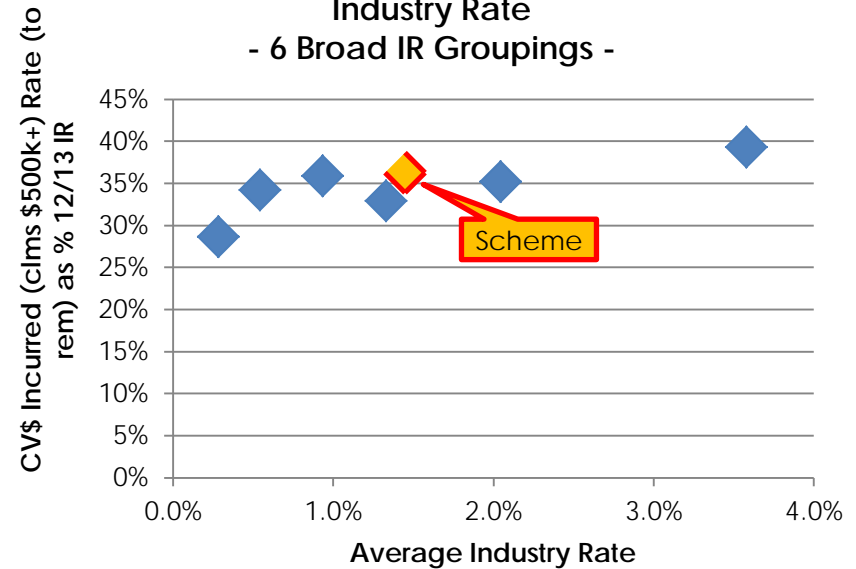


Differences within broad industry groups

Claims Above \$500k against 2012/13 Industry Rate
Ground-up Cost
- 6 Broad IR Groupings -

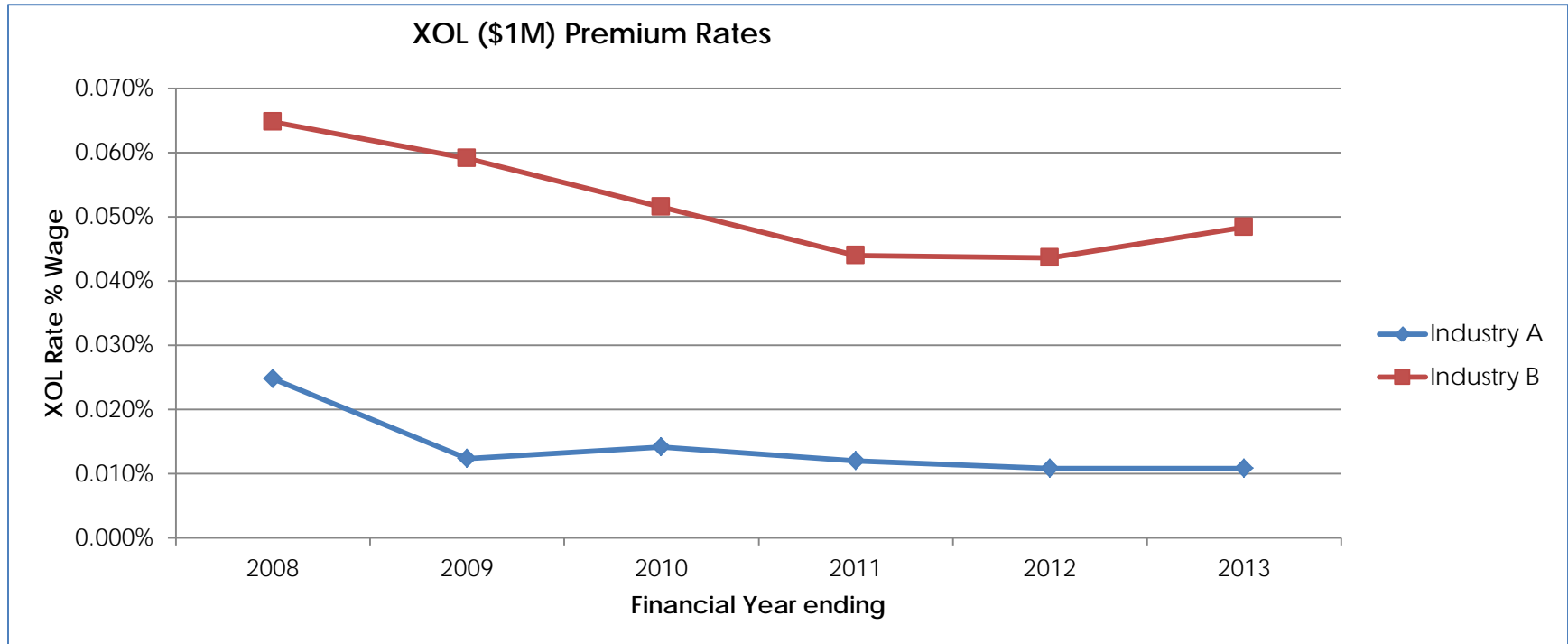


Claims Above \$500k against 2012/13 Industry Rate
Industry Rate
- 6 Broad IR Groupings -





Variation in XOL rates by industry





Comments of differences by industry

- Both versions compare the large claims cost rate for claims above \$500K arising in period 2000/01 to 2007/08 to the industry premium rate in 2012/13
 - Version 1 shows the large claims cost rate(y axis) against the industry rate in 2012/13 (x axis)
 - Version 2 shows the large claims cost rate expressed as a % of industry rate in 2012/13 (y axis) against the industry rate in 2012/13 (x axis)
- Note claims and industry rates have mismatch of years – overall premium rates have reduced over the period, and risk profiles may have changed
- There are 339 unique industry rates – hence potential volatility due to small number of large claims spread across many industries
- Shows the volatility around the average shown previously (that the CV cost is around 25% of average premium from prior years)



What might all this mean?

- Large claims cost make up considerable proportion of total costs from relatively few claims – nothing new here!
- Cost of large claims as a proportion of total premium looks to be reasonably stable year on year
- On reflection, the fall in the premium up to 2007/08 is broadly consistent with the fall in the cost of large claims
- Even given the size of WorkSafe the volatility of claims cost above high excess points is high, so for self-insurers volatility in excess of loss premiums could be considerable. Is this an issue for self-insurers?
- Differences between industries exist but this is to be expected given the frequency of large claims and potential impact for smaller sub-groups
- With grouping, consistency of large claims costs to premiums is clearly seen



Where to from here?

- We were unsuccessful in getting any comparable data from overseas – would it be of interest or tell us anything?
- Would other schemes in Australia be willing and able to provide similar data?
 - needs a consistent estimation basis that is considered reliable
- Would it be preferable to measure large claims costs as percentage of total claims costs instead of relative to remuneration and premiums?
- Would self-insurers provide more data on their excess of loss premiums to compare rates by industry and excess levels?
- Would self-insurers provide claims data so that the analysis could be broadened to cover self-insured in addition to the insured?
 - Again need a consistent and reliable estimation basis