



Coal Mines Insurance Pty Limited
ABN 70 000 011 727

Discussion Paper

COAL MINES INSURANCE



Premium Review

2010/2011

Background

As part of the premium formulae applied by Coal Mines Insurance (CMI), policies with less than two years nine months history pay a premium based on a category premium rate. Category premium rates are determined by the scheme actuary, and are based on the claims experience of all policies within the scheme for that particular category. Once a policy has two years nine months history, the premium rate for the policy is then based on the claims experience for the employer.

CMI have received requests for the existing category based system to be changed.

Requests that a rating system that allows for a premium rate which is more reflective of an employers own 'group' performance be considered when determining the rate have been raised. Feedback has also been provided that the risk during a start up operation is different to an operation in production which should also be considered.

Given the feedback received, we are providing an opportunity for stakeholders to provide further feedback in regards to whether the existing category based rating formulae remain or whether the proposed amendment to the premium calculation formulae for policies with less than two years and nine months history be considered in part or in full.

Considerations for change

We are seeking feedback as to whether the existing category rate system for policies with less than two years nine months should be maintained or whether their should be an adjustment to the existing premium formulae for policies with less than two years nine months experience.

The two areas that we are seeking feedback are as follows;

1. After one year of insurance with Coal Mines Insurance, that the claims experience of the policy holder be included within the calculation of the premium rate for the employer on a **proportionate** basis.

And /Or

2. Where a new legal entity is part of a group employer, the employer's initial rate is to be based on the employer's **group** performance for that category type.

If you wish to provide feedback, please do so by no later than the 16th April 2010.

Premium Formula

The table below details the premium formula in the event of an experience based premium formulae applying after one year claims history and where an employer based category rate is applied where an employer is part of a group. The minimum premium rate of 0.80% would still apply

YEAR	Employer	Premium Formula To Apply
ONE	Not Part Of Group	CATEGORY RATE TO APPLY
	Part Of A Group	EMPLOYER BASED CATEGORY RATE TO APPLY
TWO		$\text{Premium Rate} = (\text{Prior rate} \times (1 - .33 \text{ Sizing factor}\%)) + \text{Experience Rate} \times (.33 \text{ Sizing factor})$
THREE		$\text{Premium Rate} = (\text{Prior rate} \times (1 - .66 \text{ Sizing factor}\%)) + \text{Experience Rate} \times (.66 \text{ Sizing factor})$
FOUR		$\text{Premium Rate} = (\text{Prior rate} \times (1 - \text{Sizing factor}\%)) + \text{Experience Rate} \times (\text{Sizing factor})$

There are two scenarios in the later part of the document which are intended the impact for a policy holder moving from the exiting category rate model to the premium based model.

Category Rates

The category rates within the scheme are as follows;

1. Open cut mines
 2. Underground mines
 3. Coal preparation plants
 4. Labour hire
 5. Contractors
 6. Consultants
 7. Administration
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Where an employer is part of a group

Where an employer is part of a group employer, the initial rate for year one would be based on the employer's own group performance for the particular category.

Where a group employer establishes a new mine, the initial premium rate would be calculated as follows;

(Example Only)

Policy	Classification	Premium Rate	Assessable Wages	Premium
A	Underground	4.2%	\$10,000,000	\$ 420,000
B	Open Cut	1.5%	\$ 8,000,000	\$ 120,000
C	Underground	4.7%	\$12,000,000	\$ 564,000
D	Underground	15.5%	\$ 600,000	\$ 93,000

New underground mine

The initial rate would be 4.76%, which represents the weighted average premium rate for the group.

$((4.2\% \times \$10\text{M wages}) + (4.7\% \times \$12\text{M wages}) + (15.5\% \times \$600\text{K})) / (\$10\text{M} + \$12\text{M} + \$600\text{K}) = 4.76\%$

New open cut mine

The initial rate would be 1.5%

Defining whether an employer is part of a group

To ensure there are parameters around when an employer would be regarded as a group employer the following would be considered;

An employer would receive an initial premium rate based on the employer's group based performance where the following points are all satisfied.

1. Where the employers within the group are related corporations in accordance with the Corporations Act 2001. **AND**
 2. One or more of the related corporations have been operating for three or more years. **AND**
 3. The combined assessable wages from within the employer group, specific to the category type for the previous period of insurance to be a minimum of \$1,000,000.
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Experience rating policies

For policies in which there is greater than two years nine months history, the premium formulae is as follows;

$$\text{Premium Rate} = (\text{Prior Rate} \times (1 - \text{Sizing Factor \%}) + (\text{Experience rate} \times \text{sizing factor \%}))$$

The sizing factor determines the proportion of the employer's premium based on their individual experience and their prior rate. The larger an employer's assessable wages the greater the sizing factor.

The following information details how the premium formula would be applied for years one to four on a proportionate basis.

Calculating the sizing factor

Sizing factor

$$\text{Sizing factor} = \frac{\text{Wages} \times \text{Scheme Rate}}{\text{Wages} \times \text{Scheme Rate} + \$250,000}$$

Year One

For the first period of insurance the policy has no experience (history) and the respective category rate would apply.

Year Two

Policies will now have one years worth of claims experience. The policy could then be experience rated in year two, with 0.33 of the sizing factor applying.

$$\text{Premium Rate} = (\text{Prior Rate} \times (1 - (.33 \times \text{Sizing Factor \%})) + \text{Experience rate} \times (.33 \times \text{sizing factor \%}))$$

Year Three

Policies will now have two years worth of claims experience. The policy could then be experience rated in year three, with 0.66 of the sizing factor will apply.

$$\text{Premium Rate} = (\text{Prior Rate} \times (1 - (0.66 \times \text{Sizing Factor \%})) + \text{Experience rate} \times (0.66 \times \text{sizing factor \%}))$$

Calculating the experience rate

Year One

Policy not experience rated as there is no experience.

Year Two

Experience rate = (Incurred Cost of claims Yr 1 x Actuarial Factor Yr 1) / Sum of wages.

Year Three

Experience rate = (Incurred Cost of claims Yr 1 x Actuarial Factor Yr 1) + (Incurred Cost of claims Yr 2 x Actuarial Factor Yr 2) / Sum of wages.

Year Four

Experience rate = (Incurred Cost of claims Yr 1 x Actuarial Factor Yr 1) + (Incurred Cost of claims Yr 2 x Actuarial Factor Yr 2) + (Incurred Cost of Claims Yr 3 x Actuarial Factor Yr 3) / Sum of wages

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Scenarios

The following two scenarios are to show the difference the revised approach would have on an employer's premium rate where there are substantial claims costs (Scenario one) and where there are no claims (Scenario two).

Scenario 1

The scenario makes the assumption that the scheme rate, category rate and F Factors are the same for each of the four years. This is for example purposes only.

Underground Mine category rate 4.75%
Scheme rate 3.9%
F Factors 4.86, 3.46, 2.37

Policy year one – 2010/2011

No history

Policy year two - 2011/2012

Claims year 2010/2011 (9 months) = \$ 100,000
Wages year 2010/2011 (9 months) = \$1,000,000

Policy year three – 2012/2013

Claims year 2011/2012 (9 months) = \$ 250,000
Wages year 2011/2012 (9 months) = \$2,000,000

Claims year 2010/2011 = \$ 400,000
Wages year 2010/2011 = \$1,333,333

Policy year four - 2013/2014

Claims year 2012/2013 (9 months) = \$ Nil
Wages year 2012/2013 (9 months) = \$5,000,000

Claims year 2011/2012 = \$ 500,000
Wages year 2011/2012 = \$2,666,666

Claims year 2010/2011 = \$ 450,000
Wages year 2010/2011 = \$1,333,333

Year	Current Approach	Revised Approach
One	4.75%	4.75%
Two	4.75%	6.74%
Three	4.75%	17.92%
Four	16.28%	23.68%

Scenario 2

The scenario makes the assumption that the scheme rate, category rate and F Factors are the same for each of the four years. This is for example purposes only.

Underground Mine category rate 4.75
 Scheme rate 3.9%
 F Factors 4.86, 3.46, 2.37

Policy year one – 2010/2011

No history

Policy year two - 2011/2012

Claims year 2010/2011 (9 months) = \$ Nil
 Wages year 2010/2011 (9 months) = \$1,000,000

Policy year three – 2012/2013

Claims year 2011/2012 (9 months) = \$ Nil
 Wages year 2011/2012 (9 months) = \$2,000,000

Claims year 2010/2011 = \$ Nil
 Wages year 2010/2011 = \$1,333,333

Policy year four - 2013/2014

Claims year 2012/2013 (9 months) = \$ Nil
 Wages year 2012/2013 (9 months) = \$5,000,000

Claims year 2011/2012 = \$ Nil
 Wages year 2011/2012 = \$2,666,666

Claims year 2010/2011 = \$ Nil
 Wages year 2010/2011 = \$1,333,333

Year	Current Approach	Revised Approach
One	4.75%	4.75%
Two	4.75%	4.54%
Three	4.75%	3.83%
Four	2.67%	2.15%

Transitional provisions

As the 2010/2011 year is a transitional year the premium rate is to be no greater than 120% of the respective category rate for that year.

Policies moving from a category rate to an experience rate

2007-2008: Policies 1st Year Experience Rated

*Average Category Rate 2006/2007	*Average Premium Rate 2007/2008
4.01%	3.00%
<p>This highlights that employers who moved from a category rate to an experience rate in 2007/2008 had a drop in the premium rate during 2007/2008.</p> <p><i>* Average is in respect of those policies moving from a category rate to experience rate in 2007/2008 only.</i></p>	

2008-2009: Policies 1st Year Experience Rated

*Average Category Rate 2007/2008	*Average Premium Rate 2008/2009
3.10 %	3.14%
<p>This highlights that employer's who moved from a category rate to an experience rate in 2008/2009 had an increase in their premium rate.</p> <p><i>* Average is in respect of those policies moving from a category rate to experience rate in 2008/2009 only.</i></p>	

2009-2010: Policies 1st Year Experience Rated

*Average Category Rate 2008/2009	*Average Premium Rate 2009/2010
3.33 %	2.88%
<p>This highlights that employers who moved from a category rate to an experience rate in 2009/2010 had a drop in the premium rate.</p> <p><i>* Average is in respect of those policies moving from a category rate to experience rate in 2009/2010 only.</i></p>	
