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Nominal Insurer Liability Valuation at 30 June 2025

Background

Insurance & Care NSW (icare) commissioned Finity Consulting Pty Ltd (Finity) to estimate the insurance liabilities of the NSW Workers Compensation Nominal Insurer (NI) as at 30 June 2025. This document has been prepared by icare and summarises the results of Finity's independent actuarial assessment of the NI insurance liabilities.

The insurance liabilities of the NI include the future claim payments, which continue for the life of the injured worker in some cases, for all claims arising from accidents on or before 30 June 2025 as well as the expenses associated with administering the claims. It also includes the expected claim costs that may arise from the policies written before the valuation date.

The purpose of an insurance liability valuation is to estimate the reserves required for balance sheet reporting. The estimates reflect the information available at a specific point in time, the valuation date, and the actuary's expectations across future experience, environmental drivers and economic conditions.

Liability estimates are inherently uncertain and can change as new information becomes available.

The Finity valuation has been prepared in accordance with the Actuaries Institute Professional Standard 302 'Valuations of General Insurance Claims' and Australian Accounting Standard AASB 1023 'General Insurance Contracts'.

Results

As at 30 June 2025, Finity has estimated the discounted net outstanding claims liability of the NI to be $25,059 million. This figure includes a 11% risk margin on top of the central estimate, which has been adopted to provide an estimated 75% probability that the combined liability estimate will prove to be sufficient. The components of the outstanding claims liability as at 30 June 2025 are set out in the following table.

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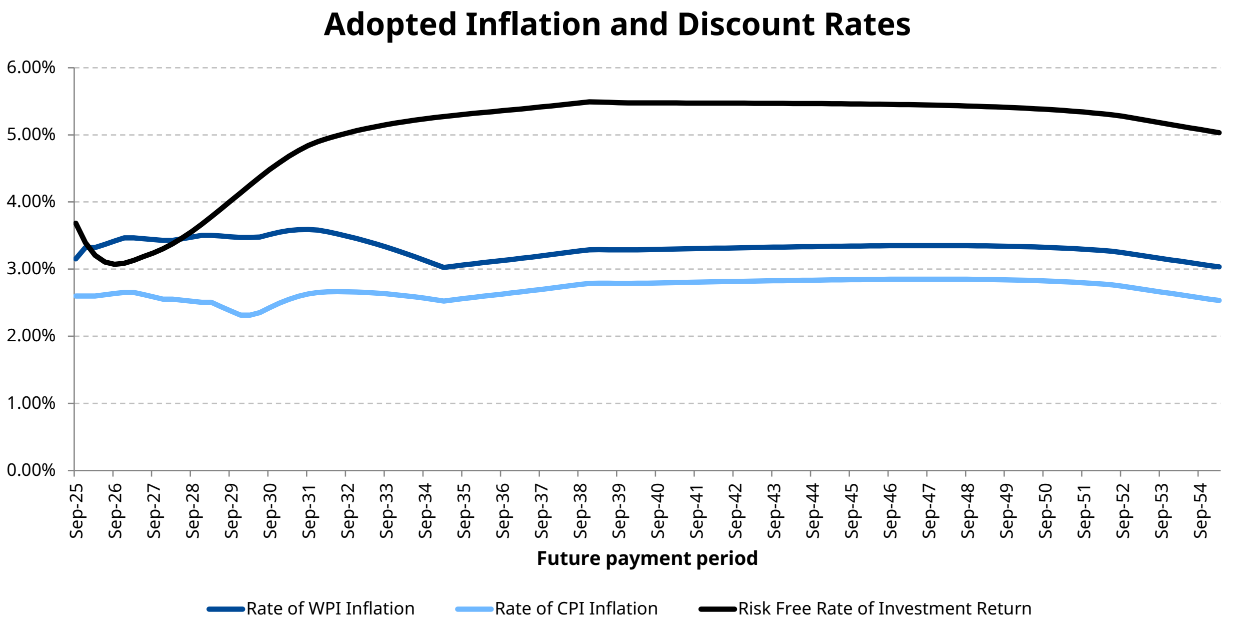
Table 1: Insurer outstanding claims liability as at 30 June 2025

Outstanding claims liability	Discounted Liability Estimate ($m's)
Weekly compensation	7,243
Medical benefits	6,228
Work injury damages	4,835
Section 66 and 67	1,129
Investigation costs	407
Legal costs	309
Rehabilitation benefits	333
Commutations	188
Death	152
Other	280
Asbestos	249
Uninsured employers	213
Direct COVID-19	22
Gross outstanding claims liability	**21,587**
Tax recoveries	134
Other recoveries	288
Uninsured employer recoveries	44
Net outstanding claims liability (excl. CHE)	**21,121**
Claims handling expenses (CHE)	1,455
Net outstanding claims liability (incl. CHE)	**22,576**
Risk margin (11.0%)	2,483
Total outstanding claims liability	**25,059**

The discount rates used by Finity in the assessment of the outstanding claims liability were taken from the yields on Commonwealth Government Bonds as at 30 June 2025 as per accounting standard AASB 1023. Future inflation rates were based on short-term economic forecasts (0 to 5 years), long-term assumptions on the gap between the discount rates and inflation rate at 10 years, very-long-term assumptions on the gap between the discount rates and inflation rates (30 years and beyond), and blending between the above approaches for 5 to 30 years.

The adopted rates for the June 2025 valuation are shown in the following figure.

Figure 1: Economic assumptions as at 30 June 2025



The mean term of the outstanding claims liability was estimated to be 12.4 years on an inflated and undiscounted basis and 6.7 years on an inflated and discounted basis.

Finity estimated the premium liability of the NI to be $1,340m as at 30 June 2025. This figure includes a risk margin of 12.3% on the unexpired risk component, again with the intention of providing an estimated 75% probability that the unexpired risk liability estimate will prove to be sufficient.

The components of the premium liability as at 30 June 2025 are set out in the following table.

Table 2: Nominal Insurer premium liability as at 30 June 2025

Premium Liability	Liability Estimate ($m's)
Unexpired risk reserve	1,193
Risk margin (12.3%)	147
Premium liability (75% PoA)	**1,340**

The premium liability is discounted using the same assumptions as the outstanding claims liability. This is a different basis to the NI pricing basis which includes no margin and allows for investment income that reflects the NI's invested assets. This difference in basis means that by accounting standards, the NI will always have a premium deficiency reserve.

The premium liability at 30 June 2025 is lower than the comparable figure at 31 December 2024 as a direct result of the seasonality effects of when NI policies are underwritten.

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Movement in results

The following figure shows the movement in the total outstanding claims liability between 31 December 2024 and 30 June 2025 split by the key components of the change. The figures are inclusive of risk margins intended to deliver an estimated 75% probability of adequacy.

Table 3: Change in the outstanding claims liability (incl. risk margin)

	FY25 Accidents ($m)	Prior Accidents ($m)	Total ($m)	Total (%)
Actual 31 Dec 24 Net Central Estimate as at 31 Dec 24	**2,641**	**20,807**	**23,448**	
Expected 30 Jun 25 Net Central Estimate as at 31 Dec 24	**5,081**	**19,368**	**24,450**	
Movements to 30 June 2025	**45**	**565**	**609**	**2.5%**
Change due to experience	-80	170	90	0.4%
Change due to actuarial assumptions	82	248	330	1.4%
Change due to inflation assumptions	-22	-79	-101	-0.4%
Change due to discount assumptions	64	226	290	1.2%
Actual 30 Jun 25 Net Central Estimate as at 30 Jun 25	**5,126**	**19,933**	**25,059**	

Relative to Finity's expectations at 31 December 2024, the outstanding claims liability estimate at 30 June 2025 has increased by approximately $609 million, or 2.5%. The key drivers of the change were:

- $90 million increase due to claims experience, driven by higher projected wages implying a higher expected number of psychological and physical claims with Whole Person Impairment (WPI) of 15%+.
- $330 million increase from actuarial assumption changes:
  - $228 million increase due to average weekly benefits increasing by more than indexation,
  - $92 million increase due to more claims continuing to receive weekly benefits between two to five years since injury,
  - $64 million increase due to an increase in the expected number of WPI 15%+ claims with physical and psychological injuries, due to deterioration observed in older accident years,
  - $52 million reduction from other changes.
- $189 million increases from changes to economic assumptions, due to lower yields partly offset by lower inflation.

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Uncertainties

Any estimate of insurance liabilities will contain elements of uncertainty. In the case of the NI these uncertainties are compounded by past benefit reforms, including but not limited to, the 2012 and 2015 reforms. The key uncertainties identified in the Finity valuation were:

- **Claims with Higher Whole Person Impairment (WPI)**: The number of physical and psychological injury claims reaching 15% WPI or more has increased. These claims have significantly longer durations and higher cost associated with them. There is uncertainty over how many claims will have higher whole person impairment and therefore higher claims cost.
- **Psychological Injury Claims**: Claims related to psychological injuries tend to last longer and cost more. The frequency of psychological claims has been increasing over the past three years, and there is also uncertainty over how many will exceed the 15% WPI threshold.
- **Medical Payment Amounts**: The average medical payment amounts have remained stable. Ongoing increases beyond normal inflation can lead to a significant increase in scheme liabilities.
- **Return to Work and Claims Management**: Projected claims costs have been steady for the most recent accident years, although higher than they were before 2017. The valuation relies on the continued use of Work Capacity for claims management. Changes to the arrangement and panel of CSPs could cause disruptions. Actual return to work rates may differ from those assumed in the valuation.
- **Work Injury Damages (WID) Conversions**: A high proportion of eligible claims are opting for a WID settlement. However, the actual conversion rates could vary, impacting both weekly and medical liabilities.
- **Economic Uncertainty**: Because many benefits are paid out over a long time, changes in inflation rates and interest rates can materially impact how much money icare needs to set aside. The current uncertain economic situation, especially with rising inflation globally, adds to the challenge of estimating the liabilities.

The above list is not exhaustive but does illustrate the uncertainty in the NI portfolio and the liability assessment process. Maintaining a sound capital position is essential to ensure the NI's ongoing delivery on its commitments to the workers and employers of NSW. That means managing and mitigating the uncertainty in the estimates where possible and holding sufficient funds to protect against potential fluctuations where it is not possible.

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