

# CMI Scheme update

## Keeping premiums stable, affordable and fair



Coal Mines Insurance

### Our premium system

Coal Mines Insurance (CMI) is committed to continuous improvement to deliver best practice workers compensation insurance and claims and injury management services that provide an overall benefit to the NSW coal industry.

The underlying objective of the CMI Scheme's premium system is to ensure premiums remain stable, affordable and fair for employers while providing a sustainable Scheme. In 2016-17, CMI introduced a new premium system to help achieve this objective and to better align premium with employers' different levels of risk and claims experience across the NSW coal industry.

To help policyholders transition to the new premium system and minimise any volatility resulting from the change, CMI implemented temporary arrangements that capped premium rate movements by +/- 30 per cent from the previous year.

### Current premium capping arrangements

The capping arrangements introduced from the 2016-17 policy year were intended to be a temporary, three-year measure with the potential for a short-term extension. On review, capping provisions were extended for an additional year for the 2019-20 policy period.

Due to the unique circumstances arising from the COVID-19 pandemic and the potential impacts on the NSW coal industry and wider economy, the Coal Services Board, made the decision to extend the transitional capping arrangements for one final year in 2020-21. In addition, the Target Premium Collection Rate for 2020-21 was held at the same level as for the 2019-20 policy year.

Earlier this year, CMI advised policyholders of the Board's decision and that the final year for the current arrangements would be 2020-21.

### New arrangements to be implemented from 2021-22

CMI has undertaken a review to assess the potential impact on policyholders after the current capping arrangements finish in 2020-21.

As a result, new capping arrangements will be implemented from the 2021-22 policy year. These changes are intended to ensure premiums remain stable, affordable and fair for all policyholders.

#### There are two key changes:

- **Employers with annual wages of less than or equal to \$2.5 million (Small Employers)** will no longer be experience-rated. Instead, premium will be set at equal to the Base Tariff Premium (BTP).

*BTP = Employer's annual wages multiplied by the Employer's Category Rate (or Weighted Category Rate, if wages are declared in more than one premium risk category).*

This approach is similar to that of many other workers compensation schemes, although the definition of a small employer varies from scheme to scheme.

- **Employers with annual wages of more than \$2.5 million (Large Employers)** will continue to be experience-rated for premium calculations. New capping arrangements based on BTP will apply.

The introduction of these changes to the premium calculation is to limit the unintended impact of occasional poor claims experience, while also ensuring policyholders pay a premium that is closer to their true premium rate. It will also provide small employers with greater premium stability.

### Impact of these changes on the CMI Scheme

The CMI Scheme covers approximately 1,900 policyholders. Of these, around 90 per cent are classified as small employers yet this cohort of policyholders represents just 10 per cent of premium collected each year.

Generally speaking, small policyholders very rarely have claims – therefore the removal of claims experience reduces the complexity of premium calculation and increases premium stability while also covering the claims and administrative costs for this group of policyholders.

**The new premium capping arrangements will come into effect for all policyholders from the 2021-22 policy renewal period.**

## What does this mean for you?

Premium capping depends on your BTP.

### For small employers:

- You will pay BTP.
- Some employers may see a premium increase as a result of the change in the capping arrangements.
- CMI will implement a transition provision of up to a maximum increase of \$5,000 per policy year (until BTP is reached) where premium increases are solely due to the premium calculation changes.

### For large employers:

- The maximum premium paid by a large employer will be based on a multiple of their Weighted Category Rate (WCR). The minimum premium is different depending on the size of the employer as follows:

BTP	Premium capped at
Less than or equal to \$500,000	1.5 x BTP
More than \$500,000 and up to \$1.5 million	2.0 x BTP
More than \$1.5 million and up to \$3 million	2.5 x BTP
More than \$3 million	3.0 x BTP

## Examples of the new capping arrangements in application

### Small employer — premium equal to BTP

	Annual wages	Claims costs*	Premium rate	Premium	Outcome
Policy details	\$2,300,000	\$0	3.50%	\$80,500	
<b>Additional \$100,000 claims cost</b>					
BTP capping		\$100,000	3.50%	\$80,500	Premium is unchanged by claims experience
No capping		\$100,000	4.35%	\$100,107	Premium increases

*Note: Your BTP could vary if there are changes in your annual assessable wages or premium risk categories.*

### Large employer with poor claims experience — premium capped at 1.5 times BTP

	Annual wages	Claims costs*	Premium rate	Premium	Outcome
Policy details	\$7,500,000	\$250,000	4.46%	\$334,207	
<b>Additional \$100,000 claims cost</b>					
BTP capping		\$350,000	5.25%	\$393,750	Premium capped at 1.5 x BTP
No capping		\$350,000	5.56%	\$416,671	
<b>Additional \$594,000 claims cost**</b>					
BTP capping		\$844,000	5.25%	\$393,750	Premium capped at 1.5 x BTP
No capping		\$844,000	10.99%	\$824,040	

*\*Premium impacting claims costs.*

*\*\*This is the large claim limit for 2020-21. Costs over this amount are not included in the premium calculation. The large claim limit is indexed each year and will be different for 2021-22.*

For more information see our FAQs on our website. Visit [www.coalservices.com.au](http://www.coalservices.com.au)

If you have any questions please contact your Account Manager or call Employer Services (02) 8270 3257.