

**COMPULSORY THIRD PARTY
MOTOR VEHICLES INSURANCE
REGULATORY CONTRACT**

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Date

Parties

1. **Motor Vehicles Insurance Limited** (company number 1-29221), a company incorporated in the Independent State of Papua New Guinea of Kunai Street, Hohola, Papua New Guinea (**MVIL**).
2. **The Independent Consumer and Competition Commission**, a body corporate established under the *Independent Consumer and Competition Commission Act 2002* (the **Commission**).

Recitals

- A MVIL has been declared by the Treasurer to be a regulated entity under section 32 of the *Independent Consumer and Competition Commission Act 2002*.
- B The provision of compulsory third party motor vehicles insurance coverage the subject of this Contract has been declared by the Treasurer to be a regulated service under section 32 of the *Independent Consumer and Competition Commission Act 2002*.
- C MVIL is licensed under the *Insurance Act 1995* to provide compulsory third party motor vehicles insurance coverage in Papua New Guinea.
- D Owners of motor vehicles are required under the *Motor Vehicles (Third Party Insurance) Act* (Chapter No. 295) to take out compulsory third party motor vehicles insurance coverage with MVIL.
- E This Contract is a regulatory contract that is binding on MVIL and the Commission pursuant to the provisions of the *Independent Consumer and Competition Commission Act 2002* and the *Motor Vehicles (Third Party Insurance) Act* (Chapter No. 295).
- F This Contract regulates the premiums that MVIL may charge for the provision of compulsory third party motor vehicles insurance coverage and the charges that MVIL may make for endorsements in respect of policies for that insurance.

It is agreed as follows.

1. General

1.1 Definitions

Approved FM Pass Through Amount has the meaning given to it in clause 4.2(a)(ii).

Business Day means a day other than a Saturday or a Sunday.

Commencement Date means the date this Contract takes effect pursuant to section 37(2) of the *Independent Consumer and Competition Commission Act 2002*.

Contract means this Compulsory Third Party Motor Vehicles Insurance Regulatory Contract.

Customer means a person to whom Third Party Insurance Cover is provided by MVIL, or a person who is seeking to have Third Party Insurance Cover provided to it by MVIL.

End of Term Actuarial Report has the meaning given to that term in clause 6.1(a).

Endorsement means a change made to a policy for Third Party Insurance Cover during the term of that policy, including as a result of a change in ownership of a motor vehicle, a change of registration plate identification or the loss of a certificate of insurance or other insurance papers.

First Regulatory Year means the period from the Commencement Date to 31 December 2002 (both dates inclusive).

FM Pass Through Amount has the meaning given to it in clause 4.1(a).

Force Majeure Event means:

- (a) a cyclone, storm, flood, earthquake, tidal wave or landslide; or
- (b) an act of public enemy, war (declared or undeclared), sabotage, blockade, revolution, riot, insurrection, civil commotion or any violent or threatening actions,

which results or is likely to result in an increase in the costs incurred by MVIL in providing Third Party Insurance Cover to Customers, or in complying with the provisions of any legislation, or of any codes or guidelines made or published by the Commission under the *Independent Consumer and Competition Commission Act 2002* or by the Minister responsible for the *Insurance Act 1995* under that Act, which must be complied with in relation to the provision of Third Party Insurance Cover.

Force Majeure Event Claim has the meaning given to it in clause 4.1(d).

Force Majeure Event Notice has the meaning given to it in clause 4.1(c).

Government Agency means any government or governmental authority, instrumentality, body or agency.

Insurance Commissioner means the Insurance Commissioner appointed under section 5(1) of the *Insurance Act 1995*.

Insurance Commissioner's Fund means the fund established by section 64A of the *Insurance Act 1995*.

Insurance Levy means the contribution required to be made by MVIL to the Insurance Commissioner's Fund pursuant to section 64C(1) of the *Insurance Act 1995* in respect of each premium paid or payable for Third Party Insurance Cover.

Insured Vehicle means a motor vehicle which is covered by a policy of insurance for Third Party Insurance Cover issued by MVIL.

Maximum Average Net Premium, for the First Regulatory Year is the sum set out in clause 2.1 and, for a Subsequent Regulatory Year t , is the amount ($MANP_t$) determined in accordance with paragraph A of Schedule 2 and approved or deemed to be approved by the Commission under clause 2.3(e), (f) or (h) (as the case may require) for that Subsequent Regulatory Year.

Maximum Net Premium applicable to a Vehicle Category, for the First Regulatory Year means the Maximum Net Premium applicable to that Vehicle Category as set out in Schedule 1 and, for a Subsequent Regulatory Year t , means the Maximum Net Premium applicable to that Vehicle Category approved or deemed to be approved by the Commission under clause 2.3(e), (f) or (j) or as determined by the Commission under clause 2.3(k) (as the case may require) for that Subsequent Regulatory Year.

Mid Term Actuarial Report has the meaning given to that term in clause 3(a).

NRSCC means the third party insurance premium levy which is levied on all third party insurance cover for motor vehicles issued under the *Motor Vehicles (Third Party Insurance) Act (Chapter No. 295)* pursuant to section 32 of the *National Road Safety Council Act 1997*.

Past Regulatory Year has the meaning given to it in clause 2.3(a).

Permitted FM Pass Through Amount, at any time in respect of a Force Majeure Event, means the increased costs that MVIL has actually incurred as at that time (as calculated by MVIL under clause 4.1(a) or by the Commission under clause 4.2(a)(i), as appropriate):

- (a) in providing Third Party Insurance Cover to Customers; and
- (b) in complying with the provisions of any legislation, or of any codes or guidelines made or published by the Commission under the *Independent Consumer and Competition Commission Act 2002* or by the Minister responsible for the *Insurance Act 1995* under that Act, which must be complied with in relation to the provision of Third Party Insurance Cover,

as a result of the occurrence of that Force Majeure Event.

Quarter means a period of three months from 1 January to 31 March (both dates inclusive), 1 April to 30 June (both dates inclusive), 1 July to 30 September (both dates inclusive) or 1 October to 31 December (both dates inclusive).

Regulatory Principles means the principles set out in Schedule 5.

Regulatory Year means the First Regulatory Year or a period of 12 months commencing on 1 January of a year during the term of this Contract.

Relevant Regulatory Year has the meaning given to it in clause 2.3(a)(i).

Stamp Duty means the stamp duty payable on policies of insurance providing Third Party Insurance Cover under the *Stamp Duties Act* (Chapter No. 117).

Subsequent Regulatory Year means any Regulatory Year after the First Regulatory Year.

Third Party Insurance Cover means compulsory third party motor vehicles insurance coverage the effect of which is to indemnify owners of motor vehicles against the sums specified in section 49(2)(a) of the *Motor Vehicles (Third Party Insurance) Act* (Chapter No. 295) for which the driver or his estate may become liable by way of damages for the death of or bodily injury to a person caused by, or arising out of the use of, a motor vehicle.

VAT means the tax imposed on policies of insurance providing Third Party Insurance Cover under the *Value Added Tax Act 1998*.

Vehicle Category, for the First Regulatory Year means a category of motor vehicles identified in Schedule 1 and, for a Subsequent Regulatory Year, means a category of motor vehicles as set out in a statement given by MVIL to the Commission pursuant to clause 2.3(a) or (i) for that Subsequent Regulatory Year or, in the absence of any such statement, as set out in the most recent such statement for any previous Regulatory Year or, in the absence of any such statement, as set out in Schedule 1.

1.2 Principles of interpretation

- (a) Unless the contrary intention appears, the following principles of interpretation apply to this Contract:
 - (i) words denoting persons include corporations, unincorporated associations, firms, governments and governmental agencies;
 - (ii) a reference to a person includes a person's agents, successors and permitted assigns, persons who have control over any assets of a person and receivers, managers, trustees, administrators and liquidators and similar persons appointed over:
 - (A) a person; or
 - (B) any assets of a person;
 - (iii) headings and subheadings are only included for convenience and do not affect the interpretation of this Contract;
 - (iv) a reference to a clause or Schedule is to a clause of, or Schedule to, this Contract;
 - (v) a reference to an agreement, document or regulatory instrument (including this Contract) is a reference to that agreement, document or regulatory instrument as varied, novated or replaced from time to time (whether or not the parties thereto remain the same);
 - (vi) a reference to legislation is a reference to legislation in force in Papua New Guinea;
 - (vii) a reference to legislation or to a provision of legislation includes a modification or re-enactment of it, a legislative provision substituted for it and a regulation or statutory instrument issued under it; and

- (viii) a reference to **Kina** or **K** is to the lawful currency of Papua New Guinea.
- (b) All calculations made under or for the purposes of this Contract must be rounded to four significant digits.
- (c) When a calculation is required under this Contract:
 - (i) Regulatory Year “t”, Subsequent Regulatory Year “t” or calendar year “t” is the Regulatory Year, Subsequent Regulatory Year or calendar year (as the case may be) in respect of which the calculation is being made;
 - (ii) Regulatory Year “t-1”, Subsequent Regulatory Year “t-1” or calendar year “t-1” is the Regulatory Year, Subsequent Regulatory Year or calendar year (as the case may be) immediately preceding Regulatory Year “t”, Subsequent Regulatory Year “t” or calendar year “t”; and
 - (iii) Regulatory Year “t-2”, Subsequent Regulatory Year “t-2” or calendar year “t-2” is the Regulatory Year, Subsequent Regulatory Year or calendar year (as the case may be) immediately preceding Regulatory Year “t-1”, Subsequent Regulatory Year “t-1” or calendar year “t-1”.

1.3 Revoking or altering decisions

- (a) If the Commission has made a decision under this Contract and later concludes that the decision was made on the basis of information provided to the Commission that was false or misleading in a material particular then, subject to clause 1.3(b), the Commission may revoke the decision and make a new decision in substitution for the revoked decision.
- (b) Before the Commission revokes and substitutes a decision pursuant to clause 1.3(a), the Commission must first:
 - (i) notify MVIL of the proposed revocation and of the proposed new decision (including the proposed date of effect of the revocation and new decision), and allow MVIL a reasonable opportunity to make submissions to the Commission regarding the proposed revocation and the proposed new decision (including submissions as to whether the original decision was based on information that was false or misleading in a material particular); and
 - (ii) take into account any matters contained in a submission made by MVIL pursuant to subparagraph (i).
- (c) A new decision made under clause 1.3(a) applies from:
 - (i) if notice of the new decision is to be published under clause 1.4(a)(iv) – the later of the date on which that notice is so published and any date specified by the Commission in that notice as the date from which the new decision is to apply; and
 - (ii) if notice of the new decision is not required to be published under clause 1.4(a)(iv) – the later of the date the new decision is made and any

date specified by the Commission in making that new decision as the date from which the new decision is to apply.

- (d) A new decision made under clause 1.3(a) must only differ from the revoked decision to the extent necessary to correct for:
 - (i) the false or misleading information on which the revoked decision was based; and
 - (ii) the application of the revoked decision during the period in respect of which that decision was in effect.

1.4 Notices

- (a) The Commission must ensure that a notice of each decision made by the Commission under this Contract (other than a decision made pursuant to clause 1.5) is:
 - (i) sent to the Minister or Ministers responsible for the *Motor Vehicles (Third Party Insurance) Act* (Chapter No. 295), the *Insurance Act 1995* and the *Independent Consumer and Competition Commission Act 2002*;
 - (ii) sent to the Insurance Commissioner;
 - (iii) sent to MVIL; and
 - (iv) published in the National Gazette and a newspaper circulating nationally.
- (b) The Commission must ensure that a copy of each decision made by the Commission under this Contract, together with a copy of its reasons for that decision, is:
 - (i) sent to the Minister or Ministers responsible for the *Motor Vehicles (Third Party Insurance) Act* (Chapter No. 295), the *Insurance Act 1995* and the *Independent Consumer and Competition Commission Act 2002*;
 - (ii) sent to the Insurance Commissioner;
 - (iii) sent to MVIL; and
 - (iv) made available for inspection and purchase by members of the public.

1.5 Modification of time periods

The Commission may, by written notice to MVIL, extend:

- (a) the time by which a thing required to be done by MVIL must be done; or
- (b) the period within which a thing required to be done by MVIL must be done, as requested in writing by MVIL.

1.6 Term

The term of this Contract commences on the Commencement Date and ends on 31 December 2011 (both dates inclusive).

2. Premiums

2.1 Maximum Average Net Premium for First Regulatory Year

The Maximum Average Net Premium for the First Regulatory Year is K308.25.

2.2 Maximum Net Premiums and Endorsements for First Regulatory Year

- (a) Subject to clause 2.7, the maximum amount that MVIL may charge a Customer for the provision of Third Party Insurance Cover during the First Regulatory Year in relation to a motor vehicle that comes within a Vehicle Category is the Maximum Net Premium applicable to that Vehicle Category for the First Regulatory Year.
- (b) Subject to clause 2.7, the maximum amount that MVIL may charge a Customer if it is required to make an Endorsement in respect of that Customer's policy for Third Party Insurance Cover during the First Regulatory Year is K46.87.

2.3 Altering Maximum Net Premiums for Subsequent Regulatory Years

- (a) By the second Friday in November of each Regulatory Year (such Regulatory Year being referred to, for the purposes of this clause 2, as the **Past Regulatory Year**) (or such other date in the Past Regulatory Year as may be agreed by MVIL and the Commission), MVIL must give to the Commission a statement that sets out:
 - (i) its calculation of the Maximum Average Net Premium for the immediately succeeding Regulatory Year (such immediately succeeding Regulatory Year being referred to for the purposes of this clause 2 as the **Relevant Regulatory Year**) demonstrating compliance of its calculation with the relevant requirements set out in Schedules 2 and 3;
 - (ii) its calculation of the aggregate number of Insured Vehicles for the 12 month period ending on 31 October in the Past Regulatory Year;
 - (iii) the Vehicle Categories to apply in the Relevant Regulatory Year for the purposes of the determination of the Maximum Net Premiums applicable to each such Vehicle Category for the Relevant Regulatory Year (which may be determined by MVIL at its sole discretion and need not be the same as Vehicle Categories for the Past Regulatory Year);
 - (iv) its calculation of the number of Insured Vehicles that were actually in each Vehicle Category referred to in subparagraph (iii) in the 12 month period ending on 31 October in the Past Regulatory Year or that would have been in each such Vehicle Category had that Vehicle Category existed during that period; and
 - (v) its proposed Maximum Net Premium applicable to each Vehicle Category for the Relevant Regulatory Year (being a Vehicle Category referred to in subparagraph (iii)), together with calculations that demonstrate the compliance of the proposed Maximum Net Premiums with the requirement set out in clause 2.3(b).

- (b) The proposed Maximum Net Premiums set out in a statement for Subsequent Regulatory Year t that is given by MVIL to the Commission pursuant to clause 2.3(a) must be such that:

$$WANP_t \leq MANP_t$$

where:

$WANP_t$ is the Weighted Average Net Premium (expressed in Kina) for that Subsequent Regulatory Year and is calculated in accordance with paragraph E of Schedule 2; and

$MANP_t$ is the Maximum Average Net Premium (expressed in Kina) for that Subsequent Regulatory Year.

- (c) The Commission may require MVIL to provide to it information that verifies or supports the calculations set out in any statement given by MVIL to the Commission pursuant to clause 2.3(a) and MVIL must provide that information within the time specified by the Commission for that purpose.
- (d) The Commission must not approve the Maximum Average Net Premium as calculated by MVIL or the Maximum Net Premiums for a Subsequent Regulatory Year as proposed by MVIL in a statement given by MVIL to the Commission pursuant to clause 2.3(a) if:
- (i) that statement does not demonstrate compliance of the Maximum Average Net Premium calculated by MVIL or the proposed Maximum Net Premiums with the requirements set out in clause 2.3(b) and in Schedules 2 and 3; or
 - (ii) the Commission is not satisfied that all of the proposed Maximum Net Premiums are fair and reasonable.
- (e) The Commission must approve the Maximum Average Net Premium for a Subsequent Regulatory Year as calculated by MVIL and the Maximum Net Premiums for a Subsequent Regulatory Year as proposed by MVIL in a statement given by MVIL to the Commission pursuant to clause 2.3(a) if:
- (i) that statement demonstrates compliance of the Maximum Average Net Premium as calculated by MVIL and the proposed Maximum Net Premiums with the requirements set out in clause 2.3(b) and in Schedules 2 and 3; and
 - (ii) the Commission is satisfied that all of the proposed Maximum Net Premiums are fair and reasonable.
- (f) If, by the first Monday in December of a Past Regulatory Year, the Commission does not notify MVIL of the Commission's decision to approve or not to approve a statement for the Relevant Regulatory Year which is given by MVIL to the Commission pursuant to clause 2.3(a), the Commission is deemed to have approved the Maximum Average Net Premium and the Maximum Net Premiums as set out in that statement with effect from that day.
- (g) The Maximum Average Net Premium and the Maximum Net Premiums as set out in any statement given by MVIL to the Commission pursuant to clause 2.3(a),

being a statement which is approved or deemed to have been approved by the Commission, apply from the later of:

- (i) the date on which the Commission approves or is deemed to have approved the Maximum Average Net Premium and those Maximum Net Premiums; and
 - (ii) the start of the Relevant Regulatory Year in respect of which the Maximum Average Net Premium and those Maximum Net Premiums are to apply.
- (h) If MVIL does not provide a statement to the Commission as required by and in accordance with clause 2.3(a), or such a statement is so provided but (by the first Monday in December of the Past Regulatory Year) the Commission notifies MVIL of the Commission's decision not to approve that statement, then the Commission must:
- (i) calculate the Maximum Average Net Premium for the Relevant Regulatory Year; and
 - (ii) notify MVIL in writing of the Maximum Average Net Premium so calculated by the Commission,

and the Maximum Average Net Premium so calculated is deemed to be the approved Maximum Average Net Premium for the Relevant Regulatory Year.

- (i) If MVIL receives a notification from the Commission under paragraph (h) it must, within 7 days after receiving that notification, give to the Commission a statement that sets out:
 - (i) its calculation of the aggregate number of Insured Vehicles for the 12 month period ending on 31 October in the Past Regulatory Year;
 - (ii) the Vehicle Categories to apply in the Relevant Regulatory Year for the purposes of the determination of the Maximum Net Premiums applicable to each such Vehicle Category for the Relevant Regulatory Year;
 - (iii) its calculation of the number of Insured Vehicles that were actually in each Vehicle Category referred to in subparagraph (ii) in the 12 month period ending on 31 October in the Past Regulatory Year or that would have been in each such Vehicle Category had that Vehicle Category existed during that period; and
 - (iv) its proposed Maximum Net Premium applicable to each Vehicle Category for the Relevant Regulatory Year (being a Vehicle Category referred to in subparagraph (ii)), together with calculations that demonstrate the compliance of the proposed Maximum Net Premiums with the requirement set out in clause 2.3(b).
- (j) Paragraphs (b), (c), (d), (e) and (g) apply in respect of any statement given by MVIL to the Commission pursuant to clause 2.3(i) as if references in those paragraphs to a statement given by MVIL to the Commission pursuant to clause 2.3(a) were instead references to that statement.

- (k) If MVIL receives a notification from the Commission under paragraph (h) but fails to give the Commission a statement pursuant to clause 2.3(i) within the time required by clause 2.3(i), the Commission may determine the Maximum Net Premiums for the Relevant Regulatory Year by reference to Vehicle Categories set out in the most recent statement given to the Commission pursuant to clause 2.3(a) or (i) or, in the absence of any such statement, as set out in Schedule 1 and the Commission's determination of the number of Insured Vehicles that were actually in each such Vehicle Category in the 12 month period ending on 31 October in the Past Regulatory Year, and the Commission must provide MVIL with written notice of any such determination.

2.4 Maximum Net Premiums for Subsequent Regulatory Years

Subject to clause 2.7, the maximum amount that MVIL may charge a Customer for the provision of Third Party Insurance Cover during a Subsequent Regulatory Year in relation to a motor vehicle that comes within a Vehicle Category is the Maximum Net Premium applicable to that Vehicle Category approved or deemed to be approved by the Commission under clause 2.3(e), (f) or (j) or as determined by the Commission under clause 2.3(k) (as the case may require) for that Subsequent Regulatory Year.

2.5 Discrimination

The premiums MVIL charges for the provision of Third Party Insurance Cover to Customers must not discriminate unreasonably between Customers who are in substantially the same circumstances. If the Commission, after consulting with MVIL, notifies MVIL that any premiums which MVIL is charging for the provision of Third Party Insurance Cover to Customers do unreasonably discriminate between such Customers, then MVIL must immediately change those premiums so as to remove that discrimination and must advise the Commission of those changed premiums.

2.6 Maximum Endorsements for Subsequent Regulatory Years

Subject to clause 2.7, the maximum amount that MVIL may charge a Customer if it is required to make an Endorsement in respect of that Customer's policy for Third Party Insurance Cover during a Subsequent Regulatory Year t is an amount (E_t), expressed in Kina, calculated as follows:

$$E_t = E_{t-1} * \left(\frac{MANP_t}{MANP_{t-1}} \right)$$

where:

E_{t-1} is the maximum amount (expressed in Kina) that MVIL was entitled to charge if it was required to make an Endorsement in respect of a Customer's policy for Third Party Insurance Cover during Regulatory Year $t-1$ (ignoring the application of clause 2.7 or 4);

$MANP_t$ is the Maximum Average Net Premium for that Subsequent Regulatory Year; and

$MANP_{t-1}$ is the Maximum Average Net Premium for Regulatory Year $t-1$.

2.7 Gross Premiums and Endorsements

MVIL may also require a Customer to pay to it the amount of any tax, duty or levy (including any Insurance Levy, NRSCC, Stamp Duty or VAT but excluding income tax) which is imposed on MVIL or that Customer in respect of the provision of Third Party Insurance Cover to that Customer by MVIL or in respect of the making of an Endorsement on a Customer's policy for Third Party Insurance Cover, but only to the extent that MVIL is required to pay that amount to a Government Agency.

2.8 Publication of Premiums and Endorsements

- (a) As soon as practicable following the approval, deemed approval or determination by the Commission (as the case may require) of the Maximum Net Premiums applicable to each Vehicle Category for a Regulatory Year, MVIL must publish a notice in a daily newspaper circulating nationally that sets out:
 - (i) the Maximum Net Premium applicable to each Vehicle Category;
 - (ii) the Maximum Net Premium applicable to each Vehicle Category for that Regulatory Year grossed up by the amount of all taxes, duties and levies (including any Insurance Levies, NRSCC, Stamp Duty or VAT but excluding income tax) which are imposed on MVIL or a Customer in respect of the provision of Third Party Insurance Cover for motor vehicles in that Vehicle Category for a premium equal to that Maximum Net Premium to the extent that MVIL is required to pay that amount to a Government Agency;
 - (iii) the maximum amount that MVIL may charge a Customer if it is required to make an Endorsement in respect of that Customer's policy for Third Party Insurance Cover during that Regulatory Year; and
 - (iv) the maximum amount referred to in subparagraph (iii) grossed up by the amount of all taxes, duties and levies (including any Insurance Levies, NRSCC, Stamp Duty or VAT but excluding income tax) which are imposed on MVIL or a Customer in respect of the making of an Endorsement on a Customer's policy for Third Party Insurance Cover for an amount equal to the maximum amount referred to in subparagraph (iii) to the extent that MVIL is required to pay that amount to a Government Agency.
- (b) As soon as practicable following a change in the aggregate amount of the taxes, duties and levies referred to in clause 2.8(a)(ii) or (iv), MVIL must publish a notice in a daily newspaper circulating nationally that sets out each of the amounts referred to in clause 2.8(a), incorporating (as appropriate) the change in that amount.
- (c) MVIL must ensure that a copy of the most recent notice published pursuant to clause 2.8(a) or (b) is displayed in a prominent position at each location at which owners of motor vehicles can obtain Third Party Insurance Cover.

3. Mid Term Actuarial Assessment

- (a) MVIL must appoint an appropriately qualified independent international consultant approved by the Commission to conduct an actuarial assessment and prepare an actuarial report (the **Mid Term Actuarial Report**) during calendar year 2006 in accordance with the provisions of this clause 3.
- (b) The Mid Term Actuarial Report referred to in clause 3(a) must be given to the Commission not later than 31 August 2006.
- (c) MVIL must require the independent consultant appointed pursuant to clause 3(a) to carry out an actuarial assessment in accordance with standard methodology and practices used internationally in undertaking actuarial assessments of compulsory third party motor vehicle insurance providers and the requirements of this clause 3.
- (d) The Mid Term Actuarial Report submitted to the Commission in accordance with this clause 3 must set out:
 - (i) the following values:
 - (A) the anticipated frequency of claims for Regulatory Years 2007 to 2011 (inclusive), being claims made under policies for Third Party Insurance Cover issued by MVIL;
 - (B) the anticipated average size of third party claims paid by MVIL during Regulatory Year 2007, being claims made under policies for Third Party Insurance Cover issued by MVIL, which is to be determined on an uninflated and undiscounted basis;
 - (C) the anticipated average reinsurance premium payments to be made by MVIL during Regulatory Year 2007, which are to be determined by dividing the aggregate of amounts paid by MVIL on a bona fide basis by way of reinsurance premiums in respect of motor vehicles insured by MVIL in the period from 1 July 2005 to 30 June 2006 by the number of such motor vehicles; and
 - (D) the anticipated pattern of claims payments to be made by MVIL for each of Regulatory Years 2007 to 2011 (inclusive), being claims made under policies for Third Party Insurance Cover which have been issued by MVIL, incorporating a 24.5% prudential margin; and
 - (ii) the calculations used to determine the values set out in subparagraph (i) and information that substantiates those calculations.
- (e) After considering the Mid Term Actuarial Report submitted by MVIL pursuant to clause 3(b), and any further information obtained by the Commission pursuant to clauses 3(h) and 3(i) or otherwise, the Commission must, not later than 31 October 2006, notify MVIL whether or not it approves the values referred to in clause 3(d)(i) as set out in the Mid Term Actuarial Report.
- (f) The Commission must approve the values referred to in clause 3(d)(i) as set out in the Mid Term Actuarial Report unless the Commission is not satisfied that those

values have been determined in accordance with this clause 3 and have been properly substantiated.

(g) If the Commission is not satisfied that a value referred to in clause 3(d)(i) as set out in the Mid Term Actuarial Report:

(i) has been determined in accordance with this clause 3; or

(ii) is properly substantiated,

the Commission must substitute that value with a value which it considers appropriate having regard to the requirements of this clause 3, the information provided in the Mid Term Actuarial Report and any further information obtained by the Commission pursuant to clauses 3(h) or 3(i) or otherwise. The substitution of any such value may only be effected by the Commission notifying MVIL, not later than 31 October 2006, of the value substituted by it for that value in accordance with this paragraph.

(h) MVIL must, at its expense, provide the independent consultant appointed pursuant to clause 3(a) and the Commission with such access to MVIL's records, employees, agents and contractors as the independent consultant or the Commission requires for the purpose of this clause 3.

(i) MVIL must procure that the independent consultant appointed pursuant to clause 3(a) provides the Commission with any information required by the Commission for the purpose of this clause 3 including, without limitation, such information as the Commission requires for the purpose of reviewing the Mid Term Actuarial Report and determining whether or not it is satisfied that the values set out in that report pursuant to clause 3(d)(i) have been determined in accordance with this clause 3 and are properly substantiated.

(j) The costs of the independent consultant appointed pursuant to clause 3(a) must be borne by MVIL.

4. Force Majeure Event Pass Through

4.1 Application by MVIL

(a) If a Force Majeure Event occurs, MVIL may seek the Commission's approval to charge Customers, in addition to the maximum amounts that MVIL is otherwise permitted to charge Customers for the provision of Third Party Insurance Cover pursuant to clause 2, an amount (***FM Pass Through Amount***) that is not greater than the Permitted FM Pass Through Amount (as calculated by MVIL) in respect of that Force Majeure Event as at the date of the Force Majeure Event Claim (if any) given to the Commission pursuant to clause 4.1(d) in respect of that Force Majeure Event.

(b) To seek the Commission's approval to pass through a FM Pass Through Amount under clause 4.1(a), MVIL must give the Commission:

- (i) a Force Majeure Event Notice pursuant to clause 4.1(c) within 3 months of the Force Majeure Event occurring; and
 - (ii) a Force Majeure Event Claim pursuant to clause 4.1(d) within 12 months of the Force Majeure Event occurring.
- (c) A Force Majeure Event Notice must specify:
- (i) details of the Force Majeure Event concerned; and
 - (ii) the date the Force Majeure Event occurred.
- (d) A Force Majeure Event Claim must specify:
- (i) details of the Force Majeure Event concerned;
 - (ii) the date the Force Majeure Event occurred;
 - (iii) the increase in costs that MVIL has actually incurred as at the date of the Force Majeure Event Claim:
 - (A) in providing Third Party Insurance Cover to Customers; and
 - (B) in complying with the provisions of any legislation, or of any codes or guidelines made or published by the Commission under the *Independent Consumer and Competition Commission Act 2002* or by the Minister responsible for the *Insurance Act 1995* under that Act, which must be complied with in relation to the provision of Third Party Insurance Cover,

as a result of the occurrence of the Force Majeure Event;
 - (iv) the extent (if any) to which MVIL has the benefit of any insurance against the consequences of the Force Majeure Event;
 - (v) the FM Pass Through Amount MVIL proposes in relation to the Force Majeure Event;
 - (vi) the basis on which MVIL proposes to apply the FM Pass Through Amount to Customers; and
 - (vii) the date from, and period over, which MVIL proposes to apply the FM Pass Through Amount to Customers,
- and must be accompanied by evidence of the increase in costs referred to in subparagraph (iii).

4.2 Approval by Commission

- (a) If the Commission receives a Force Majeure Event Claim under clause 4.1(d) in relation to a Force Majeure Event, the Commission must decide whether the Force Majeure Event occurred and, if the Commission decides the Force Majeure Event occurred, the Commission must decide:
 - (i) the Permitted FM Pass Through Amount in respect of the Force Majeure Event;

- (ii) the basis on which the FM Pass Through Amount proposed by MVIL in relation to the Force Majeure Event or the Permitted FM Pass Through Amount in respect of the Force Majeure Event as determined by the Commission (whichever is the lesser) (the **Approved FM Pass Through Amount**) may be applied to Customers; and
- (iii) the date from, and period over, which the Approved FM Pass Through Amount in respect of the Force Majeure Event may be applied to Customers,

and notify MVIL in writing of the Commission's decision and the reasons for the Commission's decision.

- (b) If the Commission does not give a notice to MVIL under clause 4.2(a) within 20 Business Days of receiving:
 - (i) a Force Majeure Event Claim from MVIL under clause 4.1(d); and
 - (ii) such evidence of the increase in costs referred to in clause 4.1(d)(iii) as is required by the Commission,

then, on the 21st Business Day after receiving that Force Majeure Event Claim and that evidence, the Commission is deemed to have notified MVIL of its decision that:

- (iii) the FM Pass Through Amount proposed by MVIL in relation to the relevant Force Majeure Event in the Force Majeure Event Claim be the Approved FM Pass Through Amount in respect of that Force Majeure Event; and
- (iv) the basis on, date from, and period over, which that Approved FM Pass Through Amount may be applied to Customers are as specified in the Force Majeure Event Claim.

4.3 Relevant Factors

In making a decision under clause 4.2(a), the Commission must take into account:

- (a) the matters and proposals set out in the Force Majeure Event Claim;
- (b) the extent to which it would have been reasonable for MVIL to have procured insurance against the consequences of the Force Majeure Event; and
- (c) any amount recoverable by MVIL under insurances against the consequences of the Force Majeure Event and of which MVIL has the benefit,

and, subject to the requirement that MVIL is not to be compensated for losses against which it would have been reasonable for MVIL to have been insured, or for losses to the extent they are able to be compensated by claiming under insurances of which MVIL has the benefit, the Commission must seek to ensure that MVIL is fully (but not over) compensated for the increase in costs referred to in clause 4.1(d)(iii) to the extent that it was reasonable for MVIL to incur those costs, taking into account:

- (d) the Third Party Insurance Cover provided by MVIL and the cost to MVIL of providing Third Party Insurance Cover;

- (e) the time cost of money for the period over which the Approved FM Pass Through Amount is to be applied;
- (f) the basis on, and period over, which the Approved FM Pass Through Amount is to be applied;
- (g) any previous application of this clause 4 which has resulted in MVIL recovering an amount either more or less than the amount required to fully (but not over) compensate it in respect of a previous Force Majeure Event in accordance with this clause 4; and
- (h) any other factors the Commission considers relevant.

4.4 Application of Approved FM Pass Through Amount

- (a) MVIL may, after:
 - (i) receipt or deemed receipt of a notice under clause 4.2(a) or (b) allowing MVIL to pass through an Approved FM Pass Through Amount; and
 - (ii) publishing a notice in a daily newspaper circulating nationally that sets out:
 - (A) the Approved FM Pass Through Amount which the Commission has approved or is deemed to have approved;
 - (B) the circumstances giving rise to the Approved FM Pass Through Amount; and
 - (C) the basis on, date from, and period over, which MVIL will apply the Approved FM Pass Through Amount to Customers,

apply the Approved FM Pass Through Amount on the basis, from the date and over the period specified or deemed to be specified in the notice from the Commission.
- (b) The effect of an Approved FM Pass Through Amount must be:
 - (i) shown on the receipt or policy document for each affected Customer; or
 - (ii) otherwise notified to such Customers in a manner approved by the Commission.

4.5 Relevance of Approved FM Pass Through Amount

An Approved FM Pass Through Amount applied by MVIL under this clause 4 is not to be taken into account in the application of clauses 2 and 3.

5. Service Standards

5.1 Minimum Service Standards

- (a) Subject to paragraph (b), in addition to any other service standard contained in any licence held by MVIL which is issued under section 18 of the *Insurance Act 1995*, MVIL must comply with the minimum service standards set out in Schedule 4.

- (b) Following the giving of a Force Majeure Notice under clause 4.1(c) and subject to the Commission giving or being deemed to have given a notice under clause 4.2(a) or (b) allowing MVIL to pass through an Approved FM Pass Through Amount, and while the Force Majeure Event continues, the obligations under paragraph (a) which cannot be performed by MVIL because of the Force Majeure Event will be suspended.

5.2 Report on compliance with Service Standards

- (a) MVIL must report to the Commission and the Insurance Commissioner by 31 March in each Regulatory Year (excluding, for the avoidance of doubt, Regulatory Year 2002), in such manner and form as is required by the Commission and the Insurance Commissioner, on:
 - (i) its achievement or otherwise of the minimum service standards set out in Schedule 4 for the preceding Regulatory Year;
 - (ii) an explanation of the reasons for any failure to achieve those minimum service standards; and
 - (iii) how MVIL intends to improve its performance so as to achieve the relevant minimum service standards for the Regulatory Year in which it submits the Report.
- (b) MVIL must provide to the Commission and the Insurance Commissioner any additional information that the Commission or the Insurance Commissioner requires in connection with the report referred to in clause 5.2(a) within such time as the Commission or the Insurance Commissioner (as the case may be) requires.

5.3 Additional Service Standards

- (a) MVIL must meet with the Commission and the Insurance Commissioner, during the 12 month period commencing on the Commencement Date, to discuss:
 - (i) any service standards the Commission or the Insurance Commissioner consider should be complied with by MVIL in addition to the minimum service standards set out in Schedule 4;
 - (ii) the cost to MVIL of complying with the additional service standards referred to in subparagraph (i);
 - (iii) the date or dates by which MVIL should be expected to comply with the additional service standards referred to in subparagraph (i);
 - (iv) the procedures for monitoring and reporting on MVIL's compliance with the additional service standards referred to in subparagraph (i);
 - (v) the consequence of a failure by MVIL to comply with the additional service standards referred to in subparagraph (i); and
 - (vi) any amendments to this Contract (including the method for calculation of the Maximum Average Net Premium and the Maximum Net Premium applicable to each Vehicle Category) that would be required if MVIL were

to be required to comply with the additional service standards referred to in subparagraph (i).

- (b) Not later than two months after the expiry of the 12 month period referred in clause 5.3(a) MVIL must prepare and provide to the Commission and to the Insurance Commissioner a report on the matters referred to in clause 5.3(a) and the position or positions of the participants in those discussions on those matters including, if appropriate, any agreement reached between the participants in those discussions in relation to the matters referred to in subparagraphs (i) to (vi) (inclusive) of clause 5.3(a) in relation to an additional service standard referred to in clause 5.3(a)(i).
- (c) The Commission must review the report produced by MVIL in accordance with clause 5.3(b).
- (d) If the Commission considers that the Commission, MVIL and the Insurance Commissioner agree on all of the matters referred to in subparagraphs (i) to (vi) (inclusive) of clause 5.3(a) in respect of an additional service standard referred to in clause 5.3(a)(i), the Commission must notify MVIL and the Insurance Commissioner accordingly and the Commission and MVIL must take steps to agree amendments to this Contract in accordance with clause 7 to incorporate such agreed additional service standard.
- (e) If the Commission does not consider that the Commission, MVIL and the Insurance Commissioner have agreed on all of the matters referred to in subparagraphs (i) to (vi) (inclusive) of clause 5.3(a) in respect of a proposed additional service standard referred to in clause 5.3(a)(i) but the Insurance Commissioner nevertheless imposes an additional service standard on MVIL (by way of a term or condition of a licence issued to MVIL under the *Insurance Act 1995* or by otherwise exercising his powers under the *Insurance Act 1995*), the Commission must propose to MVIL amendments to this Contract to be made in accordance with clause 7 the effect of which is to allow MVIL to pass through to Customers any increased costs incurred by MVIL in complying with such additional service standards as from the date of their imposition.

6. Subsequent Regulatory Contract

6.1 End of Term Actuarial Assessment

- (a) MVIL must appoint an appropriately qualified independent international consultant approved by the Commission to conduct an actuarial assessment and prepare an actuarial report (the **End of Term Actuarial Report**) during the calendar year 2010 in accordance with the provisions of this clause 6.1.
- (b) MVIL must ensure that the End of Term Actuarial Report contains all necessary actuarial information related to the business of providing Third Party Insurance Cover carried on by MVIL and which is required by MVIL for the purposes of preparing the draft Compulsory Third Party Motor Vehicles Insurance Regulatory Contract referred to in clause 6.2(a) and by the Commission in considering that

document. Without limiting the generality of this clause 6.1(b), the End of Term Actuarial Report must contain an actuarial assessment of appropriate values for, or methods for calculating, maximum average net premiums, average risk premiums, average expenses and average reinsurance premiums for policies under which Third Party Insurance Cover is to be offered by MVIL during the term of the draft Compulsory Third Party Motor Vehicles Insurance Regulatory Contract referred to in clause 6.2(a).

- (c) The consultant appointed under clause 6.1(a) must carry out an actuarial assessment in accordance with the Regulatory Principles.
- (d) The costs of the consultant appointed pursuant to clause 6.1(a) must be borne by MVIL.

6.2 Setting next Regulatory Contract

- (a) MVIL may, in accordance with clause 6.2(b), submit to the Commission a draft Compulsory Third Party Motor Vehicles Insurance Regulatory Contract which MVIL considers should bind it for a period of not less than five years and not more than ten years commencing with effect from (and including) 1 January 2012 and any written submission as to its form and content that MVIL considers appropriate. A draft Compulsory Third Party Motor Vehicles Insurance Regulatory Contract submitted in accordance with this paragraph must be consistent with and, to the extent appropriate, incorporate the results contained in the End of Term Actuarial Report referred to in clause 6.1(a) and must be accompanied by a complete copy of that Report.
- (b) The draft Compulsory Third Party Motor Vehicles Insurance Regulatory Contract, the copy of the End of Term Actuarial Report and any submission as referred to in clause 6.2(a) must be given to the Commission by 31 December 2010.
- (c) After considering:
 - (i) the draft Compulsory Third Party Motor Vehicles Insurance Regulatory Contract, the End of Term Actuarial Report and any submission made by MVIL under clause 6.2(a);
 - (ii) any submissions made by any other person in relation to the form or content of the Compulsory Third Party Motor Vehicles Insurance Regulatory Contract which should bind MVIL following the expiry of this Contract; and
 - (iii) the particular circumstances of the compulsory third party motor vehicles insurance industry in Papua New Guinea,the Commission must publish a draft Compulsory Third Party Motor Vehicles Insurance Regulatory Contract that is proposed to bind MVIL for a period of not less than five years and not more than ten years commencing with effect from (and including) 1 January 2012.
- (d) In preparing the draft Compulsory Third Party Motor Vehicles Insurance Regulatory Contract referred to in clause 6.2(c), the Commission must also take into account:

- (i) the legitimate business interests of MVIL;
 - (ii) the legitimate business interests of Customers of MVIL;
 - (iii) the nature of the services the prices of which would be regulated under the draft Compulsory Third Party Motor Vehicles Insurance Regulatory Contract;
 - (iv) the costs of providing the services the prices of which would be regulated under the draft Compulsory Third Party Motor Vehicles Insurance Regulatory Contract;
 - (v) the costs of complying with relevant health, safety, environmental, social and other legislation and regulatory requirements applying to the compulsory third party motor vehicles insurance industry in Papua New Guinea;
 - (vi) the return on assets required to sustain past and future investment in the compulsory third party motor vehicles insurance industry in Papua New Guinea;
 - (vii) any relevant international benchmarks for prices, costs and return on assets in comparable industries, taking into account the particular circumstances of Papua New Guinea;
 - (viii) the financial implications of the draft Compulsory Third Party Motor Vehicles Insurance Regulatory Contract (if it were to come into force) for MVIL and the compulsory third party motor vehicles insurance industry in Papua New Guinea;
 - (ix) the degree of actual and potential competition in the supply of the services the prices of which may be regulated under the draft Compulsory Third Party Motor Vehicles Insurance Regulatory Contract;
 - (x) any other factors specified in or under relevant legislation; and
 - (xi) any other factors the Commission considers relevant.
- (e) In addition, the draft Compulsory Third Party Motor Vehicles Insurance Regulatory Contract referred to in clause 6.2(c):
- (i) must not be inconsistent with, and must be prepared in accordance with, the Regulatory Principles; and
 - (ii) must comply with the requirements of the *Independent Consumer and Competition Commission Act 2002*.
- (f) The Commission must publish the draft Compulsory Third Party Motor Vehicles Insurance Regulatory Contract referred to in clause 6.2(c) by 30 April 2011.
- (g) MVIL may, in accordance with clause 6.2(h), make such written submissions to the Commission as it thinks appropriate in relation to the form and content of the draft Compulsory Third Party Motor Vehicles Insurance Regulatory Contract referred to in clause 6.2(f).

- (h) The submissions referred to in clause 6.2(g) must be given to the Commission by 30 June 2011.
- (i) After considering:
 - (i) any submissions made by MVIL under clause 6.2(g); and
 - (ii) any submissions made by any other person in relation to the form or content of the draft Compulsory Third Party Motor Vehicles Insurance Regulatory Contract referred to in clause 6.2(c),

the Commission must publish a final draft of the Compulsory Third Party Motor Vehicles Insurance Regulatory Contract referred to in clause 6.2(c) by no later than 30 November 2011.
- (j) In preparing the final draft of the Compulsory Third Party Motor Vehicles Insurance Regulatory Contract referred to in clause 6.2(c), the Commission must also take into account the matters referred to in clause 6.2(d).
- (k) In addition, the final draft of the Compulsory Third Party Motor Vehicles Insurance Regulatory Contract referred to in clause 6.2(c):
 - (i) must not be inconsistent with, and must be prepared in accordance with, the Regulatory Principles;
 - (ii) must comply with the requirements of the *Independent Consumer and Competition Commission Act 2002*; and
 - (iii) must be for a term of not less than five years and not more than ten years commencing with effect from (and including) 1 January 2012.
- (l) The Commission may issue statements of regulatory intent which elaborate on how the Commission will exercise its rights and perform its obligations under this clause 6.2.

7. Amendment of Regulatory Contract

7.1 Agreed Amendments

- (a) Subject to clause 7.1(b), this Contract may be varied from time to time by written agreement between the Commission and MVIL but any such variation must not be inconsistent with the Regulatory Principles or the requirements of the *Independent Consumer and Competition Commission Act 2002*.
- (b) No variation may be made to this Contract (whether pursuant to this clause 7.1 or pursuant to clause 5.3) unless:
 - (i) at least 40 Business Days prior to any such variation taking effect:
 - (A) the Commission has published a notice describing the proposed variation in both the National Gazette and a daily newspaper circulating nationally and inviting the making of submissions in relation to the proposed variation not less than 20 Business Days after the date of publication of that notice;

- (B) the Commission has provided a notice to the Minister or Ministers responsible for the *Motor Vehicles (Third Party) Insurance Act* (Chapter No. 295), the *Insurance Act 1995* and the *Independent Consumer and Competition Commission Act 2002* describing the proposed variation; and
 - (C) the Commission has made available, for inspection or purchase by the public, copies of the precise form of the proposed variation; and
- (ii) the Commission has considered such submissions in relation to the proposed variation as it receives under clause 7.1(b)(i)(A).

7.2 Amendments made by virtue of the operation of the Independent Consumer and Competition Commission Act 2002

If, with the consent of MVIL, a service included in the provision of Third Party Insurance Cover ceases to be a regulated service (as that term is defined in the *Independent Consumer and Competition Commission Act 2002*), this Contract will be varied, in accordance with the operation of section 33(4) of the *Independent Consumer and Competition Commission Act 2002*, by deleting any reference in this Contract to that service.

8. Termination of Regulatory Contract

8.1 Agreed termination

This Contract may be terminated at any time by written agreement between the Commission and MVIL.

8.2 Cessation of MVIL as a regulated entity

This Contract will terminate automatically if MVIL ceases to be a regulated entity (as that term is defined in the *Independent Consumer and Competition Commission Act 2002*).

**Schedule 1 – MAXIMUM NET PREMIUMS, ETC. BY VEHICLE CATEGORY
FOR FIRST REGULATORY YEAR**

Vehicle Category	Maximum Net Premium	Insurance Levy @ 1.0%	NRSCC @ 5%	Sub Total	Stamp Duty @ 6.50%	Sub Total	VAT @ 10%	Gross Premium
Sedan – Private Use	234.38	2.34	11.72	248.44	16.15	264.59	26.46	291.05
Station Wagon – Private Use	234.38	2.34	11.72	248.44	16.15	264.59	26.46	291.05
9 Seater Van – Private Use	332.04	3.32	16.60	351.96	22.88	374.84	37.48	412.32
Sedan – Religious Use	234.38	2.34	11.72	248.44	16.15	264.59	26.46	291.05
Station Wagon – Religious Use	234.38	2.34	11.72	248.44	16.15	264.59	26.46	291.05
9 Seater Van – Religious Use	332.04	3.32	16.60	351.96	22.88	374.84	37.48	412.32
Sedan – Medical Practitioner	234.38	2.34	11.72	248.44	16.15	264.59	26.46	291.05
Station Wagon – Medical Practitioner	234.38	2.34	11.72	248.44	16.15	264.59	26.46	291.05
9 Seater Van – Medical Practitioner	332.04	3.32	16.60	351.96	22.88	374.84	37.48	412.32
Ambulance – Hearse	234.38	2.34	11.72	248.44	16.15	264.59	26.46	291.05
Sedan – Business Use	273.50	2.74	13.68	289.92	18.84	308.76	30.88	339.64
Station Wagon – Business Use	273.50	2.74	13.68	289.92	18.84	308.76	30.88	339.64
Buses – less than 9 seats	332.04	3.32	16.60	351.96	22.88	374.84	37.48	412.32
Station Wagon – SWB – Private Use	234.38	2.34	11.72	248.44	16.15	264.59	26.46	291.05
Station Wagon – SWB – Business Use	273.50	2.74	13.68	289.92	18.84	308.76	30.88	339.64
Station Wagon – LWB – Private Use	332.04	3.32	16.6	351.96	22.88	374.84	37.48	412.32
Station Wagon – LWB – Business Use	566.41	5.66	28.32	600.39	39.03	639.42	63.94	703.36
Utility – Business Use	566.41	5.66	28.32	600.39	39.03	639.42	63.94	703.36
Van – 9 seats or less	332.04	3.32	16.60	351.96	22.88	374.84	37.48	412.32

Vehicle Category	Maximum Net Premium	Insurance Levy @ 1.0%	NRSCC @ 5%	Sub Total	Stamp Duty @ 6.50%	Sub Total	VAT @ 10%	Gross Premium
Van – exceeding 9 seats	566.41	5.66	28.32	600.39	39.03	639.42	63.94	703.36
Trucks	566.41	5.66	28.32	600.39	39.03	639.42	63.94	703.36
Buses – more than 9 seats	566.41	5.66	28.32	600.39	39.03	639.42	63.94	703.36
Public Motor Vehicle – PMV	566.41	5.66	28.32	600.39	39.03	639.42	63.94	703.36
Taxi – Commercial	332.04	3.32	16.60	351.96	22.88	374.84	37.48	412.32
Rental / Hire Car	332.04	3.32	16.60	351.96	22.88	374.84	37.48	412.32
Driving School Vehicles	332.04	3.32	16.60	351.96	22.88	374.84	37.48	412.32
Mobile / Crane / Tractors	215.00	2.15	10.75	227.90	14.81	242.71	24.27	266.98
Utility – Private Use	332.04	3.32	16.60	351.96	22.88	374.84	37.48	412.32
Utility exceeding 1.25 tonne	566.41	5.66	28.32	600.39	39.03	639.42	63.94	703.36
Trade Plate	215.00	2.15	10.75	227.90	14.81	242.71	24.27	266.98
Motor Cycle	166.25	1.66	8.31	176.22	11.45	187.67	18.77	206.44
Trailers	97.66	0.98	4.88	103.52	6.73	110.25	11.02	121.27
ENDORSEMENTS	46.87	0.47	2.34	49.68	3.23	52.91	5.29	58.19

Schedule 2 - PREMIUM FORMULAE

A. Maximum Average Net Premium

The Maximum Average Net Premium (expressed in Kina) for Regulatory Year t (MANP_t) is calculated as follows:

$$\text{MANP}_t = (\text{ARP}_t + \text{AE}_t + \text{ARIP}_t) * (1 + \text{PL}_t)$$

where:

ARP_t is the Average Risk Premium (expressed in Kina) for Regulatory Year t and is calculated in accordance with paragraph B of this Schedule 2;

AE_t is the Average Expenses (expressed in Kina) for Regulatory Year t and is calculated in accordance with paragraph C of this Schedule 2;

ARIP_t is the Average Reinsurance Premium (expressed in Kina) for Regulatory Year t and is calculated in accordance with paragraph D of this Schedule 2; and

PL_t is the Profit Loading for Regulatory Year t as set out in table 1 of paragraph B of this Schedule 2.

B. Average Risk Premium

The Average Risk Premium (expressed in Kina) for Regulatory Year t (ARP_t) is calculated as follows:

$$\text{ARP}_t = \{ \sum_i (\text{PP}_{t,i} * \text{II}_{t,i} * \text{DI}_{t,i}) \} * \text{CCV}_t$$

where:

PP_{t,i} is the Payment Pattern for Regulatory Year t. For these purposes:

- (a) where Regulatory Year t is any of 2003 to 2006 (inclusive), PP_{t,i} is the amount denoted as PP_t in table 2 of this paragraph B which corresponds to the value of i as set out in that table; and
- (b) where Regulatory Year t is a Regulatory Year after 2006, PP_{t,i} is the anticipated pattern of claims payments to be made by MVIL for that Regulatory Year as set out in the Mid Term Actuarial Report pursuant to clause 3(d)(i)(D) or (where such has occurred) as substituted by the Commission pursuant to clause 3(g).

II_{t,i} is the Inflation Index for Regulatory Year t and is calculated as follows:

- (a) when i = 0, $\text{II}_{t,0} = \sqrt{\frac{\text{CPI}_{t-1}}{\text{CPI}_{t-2}}}$
- (b) when i > 0, $\text{II}_{t,i} = \left(\frac{\text{CPI}_{t-1}}{\text{CPI}_{t-2}} \right)^i * \sqrt{\frac{\text{CPI}_{t-1}}{\text{CPI}_{t-2}}}$

where:

CPI_{t-1} is the CPI for the 12 month period ending on 30 September in Regulatory Year t-1 or on 30 September in calendar year t-1 (as the case may require) and is calculated in accordance with Schedule 3;

CPI_{t-2} is the CPI for the 12 month period ending on 30 September in Regulatory Year t-2 or on 30 September in calendar year t-2 (as the case may require) and is calculated in accordance with Schedule 3;

$DI_{t,i}$ is the Discounting Index for Regulatory Year t and is calculated as follows:

$$(a) \quad \text{when } i = 0, DI_{t,0} = \frac{1}{\sqrt{1 + [DR_{t-1} / 100]}}$$

$$(b) \quad \text{when } i > 0, DI_{t,i} = \frac{1}{(1 + [DR_{t-1} / 100])^i * \sqrt{1 + [DR_{t-1} / 100]}}$$

where:

DR_{t-1} is the 182 day Treasury Bill rate as at 30 September in Regulatory Year t-1 or as at 30 September in calendar year t-1 (as the case may require) as reported by the Bank of Papua New Guinea in its Quarterly Economic Bulletin or, if the Bank of Papua New Guinea ceases to publish that rate, such alternative rate as the Commission may specify by notice to MVIL; and

CCV_t is the Claim Cost per Vehicle (expressed in Kina) for Regulatory Year t and is calculated as follows:

$$CCV_t = [CF_t / 100] * ACS_t$$

where:

CF_t is the Claim Frequency for Regulatory Year t. For these purposes:

- (a) where Regulatory Year t is 2003, CF_{2003} is 1.65;
- (b) where Regulatory Year t is any of 2004 to 2006 (inclusive), CF_t is 1.82; and
- (c) where Regulatory Year t is a Regulatory Year after 2006, CF_t is the anticipated frequency of claims for that Regulatory Year as set out in the Mid Term Actuarial Report pursuant to clause 3(d)(i)(A) or (where such has occurred) as substituted by the Commission pursuant to clause 3(g); and

ACS_t is the Average Claim Size (expressed in Kina) for Regulatory Year t and is calculated as follows:

$$ACS_t = ACS_{t-1} * \left(\frac{CPI_{t-1}}{CPI_{t-2}} \right)$$

For these purposes:

- (a) ACS_{2002} is K13,960; and
- (b) ACS_{2007} is the anticipated average size of third party claims paid by MVIL during Regulatory Year 2007 as set out in the Mid Term Actuarial Report pursuant to clause 3(d)(i)(B) or (where such has occurred) as substituted by the Commission pursuant to clause 3(g).

Table 1

Profit Loading

Regulatory Year	Profit Loading
2003	0.05
2004	0.07
2005	0.087
2006	0.087
2007	0.087
2008	0.087
2009	0.087
2010	0.087
2011	0.087

Table 2

Payment Pattern (Regulatory Years 2003 to 2006 inclusive)

i	PP_t
0	0.05
1	0.15
2	0.21
3	0.19
4	0.13
5	0.08
6	0.05
7	0.05
8	0.03
9	0.02
10	0.01

i	PP _t
11	0.01
12	0.01
>12	0.01

C. Average Expenses

The Average Expenses (expressed in Kina) for Regulatory Year t (AE_t) is calculated as follows:

$$AE_t = AE_{t-1} * ACFI_t * \left(\frac{CPI_{t-1}}{CPI_{t-2}} - 0.02 \right)$$

where:

AE_{t-1} is the Average Expenses (expressed in Kina) for Regulatory Year t-1. For these purposes, AE₂₀₀₂ is K79.37;

ACFI_t is the Assumed Claim Frequency Increase for Regulatory Year t. For these purposes:

(a) where Regulatory Year t is 2003 or 2004, ACFI_t is 1.1; and

(b) where Regulatory Year t is a Regulatory Year after 2004, ACFI_t is 1;

CPI_{t-1} is the CPI for the 12 month period ending on 30 September in Regulatory Year t-1 or on 30 September in calendar year t-1 (as the case may require) and is calculated in accordance with Schedule 3; and

CPI_{t-2} is the CPI for the 12 month period ending on 30 September in Regulatory Year t-2 or on 30 September in calendar year t-2 (as the case may require) and is calculated in accordance with Schedule 3.

D. Average Reinsurance Premium

The Average Reinsurance Premium (expressed in Kina) for Regulatory Year t (ARIP_t) is calculated as follows:

$$ARIP_t = ARIP_{t-1} * \left(\frac{CPI_{t-1}}{CPI_{t-2}} \right)$$

where:

ARIP_{t-1} is the Average Reinsurance Premium (expressed in Kina) for Regulatory Year t-1. For these purposes:

(a) ARIP₂₀₀₂ is K3.62; and

(b) ARIP₂₀₀₇ is the anticipated average reinsurance premium payments to be made by MVIL during Regulatory Year 2007 as set out in the Mid Term Actuarial Report pursuant to clause 3(d)(i)(C) or (where such has occurred) as substituted by the Commission pursuant to clause 3(g);

CPI_{t-1} is the CPI for the 12 month period ending on 30 September in Regulatory Year t-1 or on 30 September in calendar year t-1 (as the case may require) and is calculated in accordance with Schedule 3; and

CPI_{t-2} is the CPI for the 12 month period ending on 30 September in Regulatory Year t-2 or on 30 September in calendar year t-2 (as the case may require) and is calculated in accordance with Schedule 3.

E. Weighted Average Net Premium

The Weighted Average Net Premium (expressed in Kina) for Regulatory Year t (WANP_t) is calculated as follows:

$$\text{WANP}_t = \frac{\sum_{x=1}^n a^x_{t-1} * \text{MNP}^x_t}{A_{t-1}}$$

where:

a^x_{t-1} is the number of Insured Vehicles that were actually in Vehicle Category x in the 12 month period ending on 31 October in Regulatory Year t-1 or that would have been in that Vehicle Category had that Vehicle Category existed during that period, as set out in the most recent statement given by MVIL to the Commission pursuant to clause 2.3(a) or (i) for Regulatory Year t or, in the absence of any such statement, as determined by the Commission for that purpose;

A_{t-1} is the aggregate number of Insured Vehicles for the 12 month period ending on 31 October in Regulatory Year t-1, as set out by MVIL in a statement given to the Commission pursuant to clause 2.3(a) or (i) for Regulatory Year t or, in the absence of any such statement, as determined by the Commission for that purpose; and

MNP^x_t is the Maximum Net Premium applicable to Vehicle Category x for Regulatory Year t as proposed in a statement for Regulatory Year t given by MVIL to the Commission pursuant to clause 2.3(a) or (i) or as otherwise determined by the Commission pursuant to clause 2.3.

Schedule 3 – CALCULATION OF CPI

A. CPI

The CPI for the 12 month period ending on 30 September in Regulatory Year t or on 30 September in calendar year t (CPI_t) is calculated as follows:

$$CPI_t = \{CPI_{(q4, t-1)} + CPI_{(q1, t)} + CPI_{(q2, t)} + CPI_{(q3, t)}\} / 4$$

where:

CPI for a Quarter (q) is the All Groups Weighted Average CPI for Urban Areas excluding Drinks, Tobacco and Betel Nut, published by the National Statistics Office;

$CPI_{(q4, t-1)}$ is the CPI for the Quarter ending on 31 December in Regulatory Year t-1 or on 31 December in calendar year t-1 (as the case may require);

$CPI_{(q1, t)}$ is the CPI for the Quarter ending on 31 March in Regulatory Year t or on 31 March in calendar year t (as the case may require);

$CPI_{(q2, t)}$ is the CPI for the Quarter ending on 30 June in Regulatory Year t or on 30 June in calendar year t (as the case may require); and

$CPI_{(q3, t)}$ is the CPI for the Quarter ending on 30 September in Regulatory Year t or on 30 September in calendar year t (as the case may require).

B. Changes in calculation of CPI

If a source of data described in paragraph A above is no longer published, or if any other change occurs in relation to such data which would cause the continued use of the source to result in inaccurate comparisons between data calculated using the source prior to the change and data calculated using the source after the change, then the Commission may by notice to MVIL substitute an alternative source of such data to apply from a date specified by the Commission in the notice.

Schedule 4 - MINIMUM SERVICE STANDARDS

1. MVIL must provide, either itself or through an agent, facilities in each Provincial capital in Papua New Guinea at which owners of motor vehicles can complete all necessary documentation to obtain Third Party Insurance Cover from MVIL in respect of their motor vehicles and can pay the applicable premium, such facilities to be open and accessible to members of the public during ordinary business hours on all business days in those Provincial capitals.
2. By not later than 31 December 2004, MVIL must have established, either itself or through an agent, in each Provincial capital in Papua New Guinea claims assessment and claims payment facilities at which Customers wishing to make a claim for damages in respect of the death of or bodily injury caused by, or arising out of the use of, a motor vehicle (including claims for compensation payable under the *Motor Vehicles (Third Party Insurance) (Basic Protection Compensation) Act* (Chapter No. 296)) can make such claims, have such claims processed and, if necessary, forwarded to central claims assessment facilities located in Port Moresby, raise queries in relation to claims assessment processes and, where appropriate, receive payments in respect of such claims, such facilities to be open and accessible to members of the public during ordinary business hours on all business days in those Provincial capitals.

Schedule 5 - REGULATORY PRINCIPLES

1. A standard net premium determination model (ie before the application of government and statutory charges and VAT) will be used to determine the maximum average net premium for each year of the new Compulsory Third Party Motor Vehicles Insurance Regulatory Contract. The formula to be used to calculate the maximum average net premium for each such year (P) will be:

$$P = RP + E + RI + PL$$

where:

- RP is the average risk premium;
- E is the average expenses;
- RI is the average reinsurance premium; and
- PL is the profit loading.

2. The model used to determine the maximum average net premium per year must be based on an actuarial assessment of the following key components, which is to be undertaken in accordance with clause 6.1 of this Contract by an appropriately qualified independent international consultant approved by the Commission:
 - (a) the pattern of claims payments made by MVIL over a period determined by the independent actuary to be an appropriate period, being claims made under policies for Third Party Insurance Cover issued by MVIL, incorporating a 24.5% prudential margin;
 - (b) the frequency of claims made under policies for Third Party Insurance Cover issued by MVIL and notified over a period determined by the independent actuary to be an appropriate period;
 - (c) the average size of third party claims under policies for Third Party Insurance Cover issued by MVIL and which have been paid by MVIL during the previous five years, adjusted to take into account any court decisions that indicate a significant increase in minimum claim awards;
 - (d) the recent experience in average expenses per policy for Third Party Insurance Cover issued by MVIL, being expenses incurred by MVIL over the five year period ending on 30 September 2010 (excluding one off and extraneous factors) with adjustment for inflation, any changes in minimum service standards to be met by MVIL and expected productivity improvements (with actual expenses per policy in Australia at the time of the assessment on policies of a similar nature to be used as a benchmark for considering future productivity improvements and average expenditure levels);
 - (e) the average reinsurance premium payments actually made by MVIL in calendar years 2006 to 2010 inclusive, as adjusted for inflation;
 - (f) the profit loading, which is to be based on profit loading in use in Australia in respect of businesses of a similar nature, subject to the requirement that the

Capital Adequacy Ratio and Earnings Adequacy Ratio (as determined in accordance with paragraph 4 below), weighted on a 50:50 basis, must achieve a credit rating of not less than 'A' as set out in paragraph 4 below. If there is no such profit loading in use in Australia, a profit loading rate of 8.7% is to be used,

and must take into account the following matters:

- (g) minimum service standards set by the Insurance Commissioner in consultation with MVIL, the Commission and the public;
 - (h) the requirements of approved investment guidelines binding on MVIL and issued under the *Insurance Act 1995* and the *Motor Vehicles (Third Party Insurance) Act* (Chapter No. 295);
 - (i) a discount rate, which is to be the 182 day Treasury Bill rate as at 30 September 2010 as reported by the Bank of Papua New Guinea in its Quarterly Economic Bulletin or, if the Bank of Papua New Guinea ceases to publish that rate, an alternative similar rate; and
 - (j) the percentage change in the All Groups Weighted Average CPI for Urban Areas excluding Drinks, Tobacco and Betel Nut for the year ended 30 September 2010, as published by the National Statistics Office.
3. The maximum net premium for each category of motor vehicle in respect of which Third Party Insurance Cover is to be provided must be such that the weighted average net premium for the relevant regulatory year is not greater than the maximum average net premium for that year (such weighted average net premium being determined by reference to the proportion of insured motor vehicles in the previous year ended 31 October that would be included in each such category had such category existed in relation to that previous year).
4. The standard net premium determination model must be linked to a profit and loss and balance sheet analysis of MVIL's compulsory third party motor vehicles insurance business as part of an assessment of the key financial performance indicators of that business. For the purposes of this analysis, the key financial performance indicators will be the Capital Adequacy Ratio and the Earnings Adequacy Ratio (as those terms are defined in the Standard & Poor's Property/Casualty Insurance Ratings Criteria in operation at the time of the actuarial assessment) and if there are no such Criteria in operation at such time, or if a change occurs in relation to such Criteria such as to render them inappropriate for use in the assessment required by this paragraph, the Capital Adequacy Ratio and Earnings Adequacy Ratio are to be as defined in a substitute independent publication of international application determined by the Commission. It is intended that a weighting of the Capital Adequacy Ratio and the Earnings Adequacy Ratio (on a 50:50 basis) insofar as these two ratios relate to MVIL's compulsory third party motor vehicles insurance business will achieve a credit rating for that business of not less than 'A' (as measured by Standard & Poor's rating agency (or, in the event that a Standard & Poor's credit rating is unavailable, a substitute independent publication determined in accordance with this paragraph 4)). The rating guides to be used for the Capital Adequacy Ratio and the Earnings Adequacy Ratio are set out in Schedule 6.

5. If the new Compulsory Third Party Motor Vehicle Insurance Regulatory Contract has a term of more than five years, there must be an independent actuarial assessment of the matters referred to in clause 3(d) of this Contract undertaken by an appropriately qualified independent international consultant, approved by the Commission, not later than 31 December 2016 and the results of that actuarial assessment must be provided to the Commission and must form the basis of adjustments to the maximum average net premium and the maximum net premium applying to each category of motor vehicle for the balance of the term of the new Compulsory Third Party Motor Vehicle Insurance Regulatory Contract.

Schedule 6 – RATING GUIDES

Credit Rating (Lower Bound)	Earnings Adequacy Ratio	Capital Adequacy Ratio
Below B	-	-
B	0%	0%
BB	10%	10%
BBB	70%	100%
A	130%	125%
AA	190%	150%
AAA	250%	175%

Executed by Motor Vehicles Insurance Limited

Director Signature

Director/Secretary Signature

Print Name

Print Name

Executed by Mekere Morauta Kt MP, Prime Minister and Treasurer, for and on behalf of the **Independent Consumer and Competition Commission** pursuant to Section 17 of the *Independent Consumer and Competition Commission Act 2002*

Mekere Morauta Kt MP

Prime Minister and Treasurer