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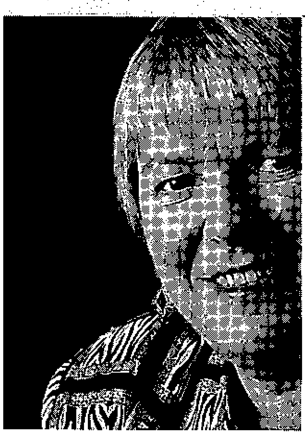
Communication Strategy

This annual report has been prepared to provide an overview of the operation of Queensland's Compulsory Third Party (CTP) insurance scheme and the Commission's approach to the management and regulation of the scheme.

The report addresses the informational needs of a diverse group of readers including: policy holders, claimants, underwriters, legal and medical professionals, motoring and motor trade organisations, government, media, and other regulatory organisations.

This document includes the Commission's strategic plan, statistical information relating to the scheme, and the audited financial statements of both the Motor Accident Insurance Commission and the Nominal Defendant.



commissioner's report

For the Commission the period from April 1999 to 1 October 2000 has been particularly active on account of the Queensland CTP Scheme Review and implementation of the recommendations.

Significant amendments were required to the *Motor Accident Insurance Act 1994*; these amendments were passed on 31 May 2000. Some amendments came into effect from 1 July 2000 but in the main, the new scheme commenced on 1 October 2000. The key initiatives are the introduction of an affordability index, a competitive premium model, streamlining of claims processes and minor changes to benefits whilst retaining an essentially unlimited common law scheme. A summary of the Review process and recommendations is contained in the feature article on pages 16 to 18.

Under the new arrangements, the insurers file premiums with the Commission between specified minimum and maximum premiums every three months. In the first round of filings to come into effect on 1 October 2000 the Class 1 premiums ranged from $285 to $299.

The Commission receives assistance from a CTP Advisory Committee in its determination of the minimum and maximum premiums and in consideration of general strategic issues relating to the competitive premium model. The current committee comprises Bernard Rowley, Henry Smerdon and Noel Mason.

CTP as an Insurance Product

One of the objectives of the review recommendations was to shift the motorist's perception of CTP insurance from that of a government tax to an insurance product. To this end, motorists need to contact the insurers to obtain information on premiums and any add-on products or incentives that might be available. This information is to be obtained and the choice made before approaching Queensland Transport to complete the registration transaction. Supporting arrangements for this philosophy have been put in place after consultation with Queensland Transport.

Regulated Premium from 1 July 2000

Because the competitive premium model could not be introduced until 1 October 2000, it was necessary under the prevailing legislation for the Commission to recommend to Government a regulated premium to apply from 1 July 2000. An actuarial analysis of claim trends was undertaken as well as a review of insurer expense allowances based on information obtained in the National Competition Policy component of the CTP Review. The net effect was a recommendation for a Class 1 premium of $286 inclusive of GST. Underlying trends included an increase in claim frequency partially offset by assessed slower growth in the average size of claims. A change in the assumption for investment returns relative to the assumption for inflationary expectations had a downward impact on the premium. In arriving at the premium, a temporary reduction was made to the levies and administration fee to absorb the impact of GST which only needed to apply to levies until the competitive premium model (which separates the insurer's premium from the levies) was introduced.

Goods and Services Tax (GST) and Businesses

As mentioned above, premiums from 1 July 2000 incorporate the applicable GST. However special transitional rules mean that input tax credits are not available to businesses for CTP insurance premiums until at least 1 July 2003. It should be noted that if such input tax credits were available, the business would consequently be exposed to the payment of GST on any payments made to third parties in settlement of claims. CTP authorities around Australia will be consulting with the Federal Government over the next year or so to resolve the potential problems this situation would cause for CTP schemes, including the possible necessity for differential CTP premiums for businesses.


Wayne Saville, Ian Evans, Julie Ecimovic and Les Kilmartin

Scheme Monitoring

The Commission's monitoring role of the CTP scheme is carried out through a range of activities including the analysis of claim trends and discussions with the various scheme participants. Summary statistics on the scheme are presented on pages 20 to 26 of this report. More detailed statistics are supplied on a quarterly basis to scheme participants (the insurance industry and the legal profession) and regular actuarial analysis of scheme trends is obtained from consulting actuaries by the Commission and shared with scheme participants.

The Review Committee recommended a greater role for the Commission in relation to improvement in the quality of claim and payments data submitted to the Commission by the licensed insurers. Integrity of this data is crucial to accurate understanding of scheme trends. The recommendations included an increase in the level and extent of data auditing undertaken.

A number of planned audits were completed during the year and these audits concentrated on auditing data fields that are particularly relevant to the determination of assumptions underlying the premiums.

In relation to injury coding, the Commission engaged personnel from the CONROD Trauma Registry to undertake two studies investigating reliability and validity of insurers' injury severity coding data which is provided to the Commission. The Commission will meet with insurers to discuss findings before a final report giving recommendations for improvement is prepared.

Under the *Motor Accident Insurance Act*, insurers have an obligation, within two months of receipt of a complying notice of claim, to resolve questions about which insurer is to be the claim manager and the basis on which claim costs are to be shared between them. During the year the industry modified its sharing agreement and this has led to a significant reduction in the need for the appointment of referee panels to resolve disputes.

Prudential Supervision

Currently, seven underwriters hold market share in the CTP scheme with Suncorp Metway Insurance Limited and FAI General Insurance Company Limited retaining market dominance. NRMA Insurance Limited made application for entry into the market and was licensed from 1 April 2000.

In accordance with a recommendation by the Review Committee, the Commission is enhancing its supervision activities in regard to licensed insurers, in particular through close monitoring of adherence to business plans and the commissioning of inspections, audits or actuarial investigations as and when appropriate. New relationships are also being developed with the Australian Prudential Regulation Authority (APRA) as APRA revises its supervision framework.

Nominal Defendant

The Nominal Defendant settled 300 claims during the financial year relating to personal injury caused by either uninsured or unidentified vehicles. Claims monitoring resulted in the identification of nine suspected fraudulent claims, and there was increased focus on recovery of amounts from uninsured owner/drivers on whose behalf the Nominal Defendant has made claim payments to injured parties.

In the 1 July 2000 premium review the Nominal Defendant levy was decreased from 4.16% to 3.777% as a temporary measure to absorb the effect of the GST on the levy. From 1 October 2000 the levy rate will be $12.40 per Class 1 vehicle (the levy rate varies for other classes according to the relative claim frequency of the class).

Research Initiatives

The Commission continues to focus on, and financially support, initiatives aimed at reducing the incidence of motor vehicle accidents and reducing the severity of road trauma.

The key initiative of the Commission is the funding of two research centres: CONROD (Centre of National Research on Disability and Rehabilitation Medicine) and CARRS-Q (Centre for Accident Research and Road Safety - Queensland). The ongoing funding of these two centres at present amounts to approximately $1.3M per year.

In addition to core funding, both CONROD and CARRS-Q have responsibility for administering competitive grants to external researchers. In 1999/2000 CONROD awarded a total of $100,000 to seven researchers in fields related to rehabilitation. CARRS-Q awarded a total of $392,000 to 13 researchers for a diverse range of accident prevention projects. The Commission has representation on the committees which evaluate and select these projects.

Other funding initiatives in 1999/2000 were:

- $500,000 to Queensland Transport to support the Easter Fatal 4 road safety media campaign;
- $1.142M to the Queensland Police Service for enforcement equipment aimed at reducing the incidence of road crash trauma;
- $17,439 to the Queensland University of Technology being the first of three annual payments as the Commission's contribution towards the Alcohol Ignition Interlock Research Project conducted by CARRS-Q; and
- $16,872 to the Queensland University of Technology for additional funding for the QUT-CONROD Research Fellowship in Clinical Biomechanics.

Organisational Matters

With the change of emphasis in some aspects of the work of the Commission, several changes have been made to the staffing structure, in particular to further strengthen analytical resourcing. The Commission is also taking on greater roles in education relating to the scheme, and in providing an information service to potential claimants and policy holders where required.

The Commission is a statutory body reporting to the Treasurer. Organisationally it is regarded as a Portfolio Office of Queensland Treasury, albeit as a non-departmental output because of the trust fund status of the Commission and Nominal Defendant. Whilst retaining full responsibility for its operations, the Commission utilises relevant Treasury Department policies and practices. The linkages with and support from Queensland Treasury personnel are acknowledged.

It is important that the Commission remain outward looking, and to this end staff of the Commission keep up to date with state and national trends in personal injury schemes, including participation in actuarial and insurance law seminars and conferences. The Commission also continues to promote cross-relationships with Australia-wide personal injury scheme authorities.

John Hand, Lesley Anderson and Tulia Koroivawai-Gauna

Outlook

As a result of the Review, the Commission's activities are now focused towards the quarterly competitive premium model, increased benchmarking and monitoring of insurers' operations, and increased information flows to the general public, potential claimants and providers. The CTP Claims Help Line has been established and its contribution to the operation of the scheme will be monitored.

The overarching reform is the affordability index and its potential to trigger scheme redesign. Trends in the various components which could put pressure on premiums will be closely examined and consultation forums will be held to draw to the attention of the scheme participants any such adverse trends.

I would like to acknowledge the contribution of a range of parties to the Review Process and the implementation of the recommendations, including the scheme participants (the insurance industry, the legal profession and the medical profession) and a number of Government agencies, especially Queensland Transport. The drafting of the amendment legislation was carried out primarily by Mr Geoff Hackett-Jones and particular thanks is due to him for preparing the legislation under very tight timeframes. The Review Committee and the subsequent Advisory Committee have made a major contribution to the process and the Commission is especially appreciative of the manner in which our contributions have been sought and recognised. The final acknowledgement is made to the staff of the Commission who have met the challenges of the past year.

Lesley Anderson
Insurance Commissioner

corporate profile

The Motor Accident Insurance Commission is responsible for the ongoing management of the CTP motor accident personal injury insurance scheme in Queensland. Established under the *Motor Accident Insurance Act 1994*, the Commission commenced operations on 1 September 1994 as a statutory body reporting to the State Treasurer. The chief executive of the Commission is the Insurance Commissioner who also has the role of Nominal Defendant.

Scheme Description

Since 1936, Queensland has operated a common law fault based compulsory third party (CTP) motor vehicle insurance scheme. The scheme provides motor vehicle owners with a policy of insurance which covers their unlimited liability for personal injury caused by, through or in connection with the use of the insured motor vehicle anywhere in Australia.

For those injured in motor accidents, the scheme provides access to the common law where the injured party can establish negligence against an owner or driver. It should be noted that, because the scheme is a fault based scheme, circumstances can arise where, for example, a driver who is solely at fault in an accident cannot obtain compensation because there is no negligent party against whom he or she can bring an action.

Seven licensed private insurers currently underwrite the Queensland CTP scheme. The licensed insurers accept applications for insurance and manage claims on behalf of their policyholders.

Until 30 September 2000 premiums were set by regulation and could not be varied by the insurer. The introduction of a competitive model for the scheme from 1 October 2000 allows insurers to determine their premiums within floor and ceiling premiums set by the Commission. The efficient system of premium collection through the motor registry of Queensland Transport has been retained to minimise administration costs within the scheme and to provide motorists with a relatively convenient form of transaction.

The office of the Nominal Defendant acts as insurer where damages are claimed for personal injury arising from the liability of uninsured motor vehicles and unidentified motor vehicles. The Nominal Defendant, in the event of insolvency of an underwriting CTP insurer, has a legislated role to meet the cost of claims against that insurer.

CTP premiums in Queensland remain relative to other States with the Queensland scheme one of only three schemes continuing to offer essentially unlimited common law entitlement (the other schemes are Tasmania and ACT).

Although the structures of the schemes differ, all CTP authorities in Australia participate in regular forums to address common issues for all the State schemes.

Key Functions

The primary activities of the Commission are set out below. Some of these activities commence in accordance with the Act amendments from 1 October 2000.

- Keeping the statutory insurance scheme generally under review and making recommendations for its amendment;
- Ensuring premium affordability by reporting to Government on cost trends of the scheme and developing appropriate changes to the scheme if and when the affordability index is likely to be exceeded;
- Establishing and developing target rates of efficiency of the scheme which will measure the cost of delivery of benefits to injured persons and the proportion of the premium dollar that reaches injured persons;
- Maintaining insurance standards and scheme credibility through licensing, prudential supervision of insurers and monitoring insurer claims management compliance;
- Fixing premium ranges and recommending scheme levies to government;
- Providing an information service to policy holders and potential claimants on the operation of the scheme;
- Assessing and funding a diverse range of education, research and rehabilitation strategies to minimise and mitigate the effects of motor vehicle accidents;
- Developing and maintaining a claims register and statistical database for the purpose of providing scheme information; and
- Administering the Nominal Defendant Scheme and Fund.

The Commission is assisted in key strategic functions by reference to an Advisory Committee established under Section 11 of the Act. The current Advisory Committee comprises Bernard Rowley, Henry Smerdon and Noel Mason.


John Foster, Lynne McCall-Marshall, Max Leo and Neil Tomkins

Funding

The Motor Accident Insurance Commission is funded by a statutory levy within the CTP premium. The levy for the year 1999–2000 was set at 0.335% of gross premium resulting in an income from the levy of $2.382M. The Commission also has available the interest earned on investment of the Motor Accident Insurance Fund and revenue from compliance fines. These amounts, combined with any surplus from the statutory levy, fund the Commission's research initiatives.

The Nominal Defendant operation is funded by a levy within the CTP premium. The levy is set on the basis of an actuarial assessment of claim trends. For the reporting period, the levy was 4.16% of the premium, resulting in an income of $23.645M during 1999-2000.

From 1 July 2000 to 30 September 2000, the statutory levy was 0.315% and the Nominal Defendant levy was 3.777%. From 1 October 2000 the statutory levy is $1 per vehicle. The Nominal Defendant levy varies in accordance with the class of the vehicle; for class one vehicles the levy is $12.40 from 1 October 2000.

corporate governance

The operations of the Motor Accident Insurance Commission are governed by the *Motor Accident Insurance Act 1994*. Under this legislation the Insurance Commissioner, in the Commissioner's official capacity, constitutes the Commission. The Commissioner is also the Nominal Defendant and is appointed under the *Public Service Act 1996* with responsibility for the administration of the Act, the Motor Accident Insurance Fund and the Nominal Defendant Fund.

The Insurance Commissioner reports to the State Parliament through the Treasurer and provides regular status reports on operations, as well as an annual report required by the *Financial Administration and Audit Act 1977* and under section 19 of the *Motor Accident Insurance Act 1994*.

The Commission operates within a framework of policies and procedures established by the Queensland Government, including the requirements of the *Financial Administration and Audit Act 1997*.

Freedom of Information

During the reporting period, the Nominal Defendant received one application for the release of information under the provisions of the *Freedom of Information Act 1992*; this application has been finalised. The Commission received two applications for the release of information and these applications have also been finalised.

Internal Audit

The Management Audit Services Branch of Queensland Treasury provides internal audit services to the Motor Accident Insurance Commission. The audit aims to assess financial and administrative control systems and seeks to improve the organisation's management of, and accountability for, the use of resources. It also aims to address, at a strategic level, key risk areas and corporate governance issues.

The results of all audits are reported to the Under Treasurer and include opinions regarding the adequacy and effectiveness of financial, operational, administrative and computer controls. Additionally, recommendations are made for strengthening and enhancing controls if any weaknesses or breakdowns are evident.

In light of the extensive internal audit review of the Commission in 1998–99, the audit of the Commission's operations in April 2000 focused on those controls identified in the most recent full internal audit to ensure that they are still in place and operating satisfactorily. In the opinion of Management Audit Services, adequate internal controls are in place and operating effectively to ensure that the Motor Accident Insurance Commission and the Nominal Defendant meet their objectives.

staff matters

The Motor Accident Insurance Commission aims for an effective working environment that is safe, equitable, free from discrimination and conducive to the achievement of excellent results. Total staffing in the Commission and the Nominal Defendant is 25. The staff in the two areas work closely together in the interests of staff development and to harness the experience of claim managers in the development of scheme policy.

Potential areas for development and enhancement in our operations were discussed at a strategic planning session in November 1999 and a follow-up session in June 2000. An action plan was formulated and progress against this plan has been updated on a quarterly basis. The key initiatives are in the area of communication where a number of new channels for information exchange (formal and informal) have been introduced.

The CTP Review and the implementation of the recommendations had a significant impact on the office, with all staff at least partially involved in the process. The Review Team of Lesley Anderson, John Hand, Les Kilmartin and Bill Watson were joined in full-time capacities by Mike Reynolds and Janette Archibald to implement the reforms.

Ian Evans and Wayne Saville were appointed as Nominal Defendant Claim Managers during the year following the retirements of Bernie Clark and Mike Hogan. Ian has worked in the general insurance industry since 1975 and specifically within the CTP insurance environment since 1989. Wayne has been with the Commission since 1996 and has been relieving in the position of Manager, Nominal Defendant since April 1999 to cover the period that Les Kilmartin was working on the Review and the implementation of the reforms. Les has recently been promoted to a redesignated position of Manager, Nominal Defendant and Principal Adviser Claims.

Other permanent positions currently being created are intended to strengthen resourcing in research and compliance (especially data audit issues) and policy/client services. With the introduction of the CTP Claims Help Line, two positions are being redirected to the staffing of this service. As a staff development initiative, Greg Bott (Manager Systems and Finance) is currently seconded to Treasury Office until March 2001. His position is being filled in an acting capacity by Tulia Koroivawai-Gauna.

Rex Mellifont, Ian Evans and Wayne Saville