2023 Review of Queensland's Compulsory Third Party (CTP) Insurance Scheme

Allianz Australia Insurance Limited ('Allianz') welcomes the opportunity to provide feedback in relation to the 2023 Review of Queensland's CTP insurance scheme ('Review'). Allianz has also supported the submission in relation to this Review of the Insurance Council of Australia, the representative body for general insurers.

Allianz is one of Australia's largest general insurers with over 3.6 million customers and provides Personal, Life, CTP, Commercial and Workers Compensation insurance. It operates throughoutAustralia and New Zealand.

Scope of consultation

Allianz supports the Review examining whether the current scheme is meeting its key objectives in the interests of delivering optimal outcomes to injured road users and the motoring public of Queensland. The rationale for the Motor Accidents Insurance Act 1994 was to ensure a stable, viable, compulsory third-party motor vehicle insurance system; to facilitate an effective and efficient approach to the management of personal injury claims arising from motor vehicle accidents; and to develop opportunities for the rehabilitation of claimants who sustain personal injury from motor vehicle accidents. Allianz is fully supportive of these objectives and our response is provided in the context of supporting these objectives.

The Discussion Paper outlines the following three scenarios for consideration by key stakeholders and the wider community:

Scenario 1: Maintain status quo.

Scenario 2: Retain existing privately underwritten model with scheme design changes.

Scenario 3: Transition to a public underwriting model.

Scenario 1 Maintain status quo

It is Allianz's view that for the optimal operation of the Queensland CTP Scheme, there should be healthy competition which is not just restricted to price. There are a multitude of other factors which may form the basis of competition amongst insurers in the scheme. For example, Insurers currently leverage their strengths to compete within the bounds of the current scheme rules: RACQ benefits from nominations through local brand recognition and Suncorp and QBE through incentives such as multi-policy discounts.

Consistent with the rationale of a stable and viable compulsory third party motor vehicle insurance system it is important from an insurers' perspective that price setting is at a sustainable level to meet return on capital. However, profit margins alone are not a good indicator of the commercial sustainability of long-tail personal injury compensation schemes, because insurers target a return on the large capital reserves that they need to hold to pay future claims, particularly those to be paid to support customers many years into the future. Capital is also held to protect against unanticipated adverse claims cost developments. For several years, the Queensland CTP scheme has not been delivering Allianz's target return on capital. This is driven by the fact that the scheme's target 8% margin allowance in their pricing basis is insufficient to achieve the level of return on capital targeted by insurers.

Promoting price competition amongst insurers is an identified objective in the MAI Act and will assist to achieve another objective which is to keep the cost of CTP insurance at a level that the average motorist can achieve. However, to promote sustainable price competition in the scheme requires providing an environment which allows insurer price setting to be at a level that enables insurers to achieve the requisite return on capital by setting appropriate floor and ceiling rates.

It is our view that price should not be the sole determinant of the success and sustainability of the scheme but that there should be a wider consideration of the experience of claimants within the operation of the scheme. We suggest a matrix of measures reflective of the services provided by the insurer and which provide a more nuanced picture of scheme relativities. These measures should be relevant to and reflect the objectives of the Motor Accidents Insurance Act 1994 (MAI Act). We have identified some broad themes that the measures may incorporate.

- Return to work/activity and value-based care outcomes for injured people to align with objective (h)[1] of the MAI Act coupled with allowing insurers greater input and influence in claimant's return to work.

- Complaints handling and dispute management practice[2] including dispute numbers, claim duration and disputes resolved.

- Data quality and reporting.

- Measure of efficiency and delivery of claims management services.

It is worth noting that in the *General Motorist and New Car Buyer Research* commissioned by MAIC in June 2020, 78% of respondents considered that metrics relating to insurer claims management would be useful when selecting an insurer.

This Review provides an opportunity to reduce the level of capital reserves so that insurers do not need to target higher returns to meet return on capital requirements. The reduction in the level of capital reserves required to be held by insurers will improve the ability for insurers to compete on price while maintaining affordability. The scheme will also benefit from continued investment in systems and processes to drive innovation and better scheme outcomes in terms of both cost and duration, as these can be further reflected in lower future premiums.

Unlike privately underwritten CTP schemes in other States, where vehicle owners can be charged different premiums, within a range, according to their risk, all Queenslanders who own

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[1] to promote and encourage, as far as practicable, the rehabilitation of claimants who sustain personal injury because ofmotor vehicle accidents

[2] Objective (g) of the MAI Act: to encourage the speedy resolution of personal injury claims resulting from motor vehicle accidents

the same vehicle type pay the same premium. Moreover, benefits to injured parties are based on scheme-wide guidelines and/or common law precedents. Insurers' returns, therefore, are largely determined by how well they help claimants quickly return to their pre-accident health, lifestyle and/or work, which controls cost. Any changes directed at diverting returns from those insurers delivering better rehabilitation outcomes for injured road users, to poorer performing insurers, would be a retrograde step, to the detriment of the outcomes for injured motorists and the future commercial sustainability of the scheme.

Allianz has invested additional claims resources over the last 3 years and restructured our business to facilitate an optimal customer experience. Allianz acknowledges the benefits of the MAIC Digital innovation program. Allianz will continue to incorporate the use of the MAIC portal within our business model and customer communications. It is therefore Allianz's view that the success of the Queensland CTP scheme should be focussed on the claims management performance and innovative measures invested in and implemented by insurers. It is of no value to the scheme to subsidise underperformers as this would act as a disincentive to innovation to the detriment of the scheme. Allianz recommend MAIC to continue to support investment in best practice claims management and provide mechanisms to ensure return for those insurers effective at delivering stronger outcomes for participants.

Scenario 2 Retain the existing privately underwritten model with scheme design changes

Premium Equalisation Mechanism

Allianz does not support the adoption of an insurer premium equalisation mechanism in the scheme. Our experience of the risk equalisation mechanism (REM) in NSW CTP scheme is that it involves a high level of complexity and volatility. The implementation costs across the industry were high and considerable ongoing administrative effort is required in order to assess and adjust REM amounts on a regular basis. Complications associated with the management of imbalances within the premium pool have added to the burden of maintaining this mechanism. The aim in NSW of introducing the REM was not to support poorer performing insurer portfolios but to balance cross subsidies for Class 1 passenger vehicles across the whole market. This was intended to reduce insurer reliance on only the more profitable distribution channels and the focus on pricing only to attract certain customer segments. Neither of these behaviours are possible in the Queensland market and with the share of the profitable new car market becoming more evenly shared across insurers, the need for such a mechanism is less clear.

Further, it has been our experience that this does not drive price competition, nor has it had any significant impact on insurer behaviour. This tool also does not address the fundamental issue of poorer claims management performance which ultimately has a negative impact on scheme outcomes.

Random Allocation

We also do not support mandating the random allocation of CTP insurers in the scheme. The many challenges of such an approach are laid out in the MAIC consultation paper and do not appear to be offset by equivalent benefits as the current customer choice model seems to be working effectively. The suite of changes introduced by MAIC to encourage consumer choice appears to be having the desired outcome with a material shift having been observed in the relative market share of insurers over the past 5 years. An allocation approach would simply remove motorists' ability to nominate their insurer of choice at the point of vehicle purchase and would necessitate a transition at renewal or a complicated mid-term transfer as is available in SA. The 2020 research referred to above indicated that 75% of motorists considered choice of insurer to be an important feature of the Scheme and 77% of new car buyers were aware of their ability to select their CTP insurer.

We do not believe that the introduction of random allocation will improve price competition. In fact, our expectation is that the only impact would be the elimination of any current or future incentives being offered to new car customers at the point of sale. Were it to stimulate price competition, however, an additional complication would be introduced whereby provisions would also have to be put in place to ensure that customers were not unfairly impacted by being unable to choose an insurer that offers a lower price than the insurer that is allocated to them.

Multiple Licences

Allianz does not support the introduction of multiple licences for CTP insurers based on its experience with holding multiple licences in the NSW CTP Scheme. Allianz had operated under multiple licenses in NSW for a period. However, with the extra burden of reporting and processes and with no discernible benefits, Allianz ceased operating under the additional licence. It is also unlikely that the introduction of multiple licences will promote price competition given the current price setting abilities are quite limited and unable to be varied by risk rating.

Multiple licences could potentially be a feasible option if there was greater flexibility in the pricing structure. Insurers operating multiple brands may give the perception of greater competition in the market. The impact of the introduction of this option would be minimal with additional administrative costs on government and insurer to maintain the extra licence and the requisite change websites/renewal notices/systems, the costs of which would ultimately be passed onto motorists.

Active decision making

In the 2020 research commissioned by MAIC, more than 50% of customers indicated that they had not switched insurers because they either did not see it as a priority or they did not see any point in doing so due to there being no difference in price. A further 21% felt that the process of switching was too much effort. The sum of these responses does not indicate that there would be value to the Scheme in implementing such a change. At a minimum, conditions would firstly have to be created that would allow for a greater level of price competition between insurers.

Our recommendation to achieve this was provided above. As highlighted in the Discussion Paper, it may otherwise simply create unnecessary friction for customers who genuinely want to retain their existing insurer. It would also necessitate costly system changes, create unnecessary churn and add administrative burden and costs to the scheme.

Furthermore, there is a considerable trade-off between the investment insurers make on claims management initiatives and that which would be required to be invested in initiatives to engage and attract customers to influence active decision making.

Scenario 3 Transition to a public underwriting model

Allianz does not support a transition to public underwriting for the scheme. We believe that a privately underwritten scheme as has been the case in Queensland since inception provides the optimum environment for scheme sustainability and confidence. Private insurers are subject to stringent prudential regulation and are required to have sufficient future reserves to pay claims. There is also a greater scope for innovation under a privately underwritten scheme providing motorists the benefit of superior claims management practices.

There is also sufficient precedence in Australia of public underwritten statutory schemes falling into deficit because of incorrect pricing of risks sometimes due to political pressures threatening sustainability and consumer confidence in the relevant scheme. Further details of the negative impact of transitioning to a public underwriting model are included in the Insurance Council of Australia's submission to the Review.

Broader consideration for the Review

Allianz believes that this Review provides the perfect opportunity to revisit the required capital with the view to reducing the capital allocated to CTP or increase the ceiling rates (to broaden the range) to enable insurers to achieve their target return on capital and increase price competition.

Capital held by insurers are prescribed by APRA's prudential standards and reflect the nature and level of risk and volatility associated with the product. In the case of CTP, the duration and nature of the long tail product requires insurers to hold a much higher capital than other products. There has been a number of changes in the Queensland CTP scheme which improved the level of volatility and duration such as the introduction of the Lifetime Care Scheme and lower duration, scheme stability resulting in lower superimposed inflation environment, which may justify a lower capital allocation. Furthermore, any other measures which further ameliorate the volatility in claims outcomes for insurers will be a positive and welcome development.

Allianz will be happy to engage further in relation to matters raised in this submission or on any subsequent implementation measures which may arise because of the Review.