



Insurance Council
of Australia

20 April 2023

Motor Accident Insurance Commission
GPO Box 2203
Brisbane Qld 4001

Submitted by email: consultation@maic.qld.gov.au

Dear Sir/Madam,

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

The Insurance Council of Australia ('ICA'), on behalf of its licensed Queensland CTP insurer members ('Insurers') welcomes the opportunity to provide feedback in relation to the 2023 Review of Queensland's CTP insurance scheme ('Review').

The ICA is the representative body for the general insurance industry in Australia. The Queensland CTP scheme is currently underwritten by four insurers: Allianz, QBE, RACQ and Suncorp. The ICA and Insurers are committed to working with the Motor Accident Insurance Commission ('MAIC'), the Queensland Government and other stakeholders to support a stable and sustainable CTP scheme that is effective and delivers affordable premiums to motorists.

Scope of consultation

We support 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. We note that the review does not consider any changes to aspects of the scheme that are described in the Discussion Paper as "working well", including the premium setting process or compensation benefits for injured people.

The Discussion Paper outlines the following three scenarios for consideration by key stakeholder 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.

While acknowledging the interest of our members in the scenarios, given the commercial relevance of Scenarios 1 and 2, the ICA's submission will focus on addressing Scenario 3. We understand Insurers may make additional individual submissions to MAIC addressing the other scenarios raised.

The ICA, on behalf of Insurers, opposes Scenario 3 and submits there is a strong case to retain a competitively underwritten model in Queensland.

Key Points in support of continuing a Competitively Underwritten Model

- **Current affordability** - the current scheme is performing well in terms of affordability of premiums.
- **Competition and Consumer benefits** – privately underwritten model promotes competition and consumers can benefit from multi-policy discounts and add-on driver protection policies, as well as benefiting from the affordability that is generated by competition to enhance claims management efficiency.
- **Risks associated with public underwriting** – the potential financial burden on government where shortfalls need to be met by future policyholders and negative impact on the economies of scale of the private insurance industry.

Current affordability

The objects of the *Motor Accident Insurance Act 1994*¹ (MAI Act) together with the overarching scheme objectives of affordability, efficiency, fairness and flexibility are, in the view of the ICA, best met by a competitively underwritten scheme.

Transitioning Queensland's CTP scheme to a public underwriting model would represent a major policy shift from a model that has been underwritten by private insurers since the scheme's inception in 1936 and would put at risk the affordability that Queenslanders have enjoyed for many years. The ICA believes that the best way to ensure the CTP scheme remains affordable is to maintain the model of competitive underwriting, which has generated efficiencies and customer value for Queenslanders.

Data demonstrates that Queensland's competitively underwritten CTP scheme is one of the most affordable in the country and compares favourably against other schemes. For example, the total Class 1 annual CTP premium in Queensland in 2022 was \$364 compared to an equivalent of between \$430 to \$552 in Victoria². Victoria is one of the four publicly underwritten schemes in Australia.

Maintaining affordable premiums is a key concern for Queensland motorists. Research commissioned by MAIC in 2020 found that 75% of registered motor vehicle owners reported that a CTP scheme with a focus on affordable premiums for the majority of the community was more important to them than a scheme where the focus was on promoting greater price competition between insurers³.

Competition and consumer benefits

The ICA submits there exists a strong case that the objectives of affordability and flexibility in the statutory CTP insurance scheme in Queensland are well served by private insurance markets. The ICA believes that managing the risk of injury is performed most efficiently by the private sector and that

¹ Section 3, *Motor Accident Insurance Act 1994*.

² TAC website: https://www.tac.vic.gov.au/_data/assets/pdf_file/0009/632556/TAC_WebRatesJuly2022.pdf

³ The General Motorist and New Car Buyer Research 2020, Summary Excerpt, 24 June 2020.

Queenslanders injured on the roads will be best protected under the current system of competitive underwriting.

Government monopolies do not allow customer choice and the benefits of competition. The CTP schemes in Victoria, Western Australia, Tasmania and the Northern Territory are not subject to competition. The ICA submits that such systems are contrary to the framework for reforms of government services set out under the National Competition Policy (NCP) which was designed to: (i) separate regulatory and commercial functions; (ii) effect structural separation of contestable from non-contestable activity; (iii) apply cost-reflective pricing; and (iv) commercialise, corporatise and, in some cases, privatise government businesses.

The Discussion Paper notes that given Queensland Insurers consistently file at or close to the regulated ceiling price set by MAIC, the benefit of competition in a scheme underwritten by private insurers is not visible to the majority of Queenslanders. While there may be minimal price competition in the CTP scheme, the ICA submits that in a privately underwritten scheme where consumers can choose their insurer, competition can occur in a number of ways, such as insurers offering incentives to attract and retain CTP business. Such incentives may include multi-policy discounts, discounts on memberships, related products, e-gift cards and other vehicle related subsidies.

Innovation in claims management

Private underwriting generates scheme competition which encourages innovation and delivers better outcomes for motorists. In an environment of consumer choice, insurers work hard to attract and retain customers through innovations and constant uplifts in customer service, cognisant of the reputational risk that can result from poor customer service. Insurers in the current scheme have significant claims management expertise and bring substantial value to the scheme. Competition ensures constant innovation and improvement for the benefit of injured people and the operation of the scheme.

Risks associated with public underwriting

CTP insurance in Queensland has been underwritten by private insurers since the scheme's inception in 1936. A shift to a public underwriting model would pose add significant financial risk to the government balance sheet. Policy holders would potentially be put at risk of premium increases if the sustainability of the scheme was threatened. Publicly underwritten schemes falling into deficit has occurred on multiple occasions in other jurisdictions. Governments face electoral pressure to keep premiums down, which risks a deficit. Alternatively, where a scheme is in surplus and delivers a dividend to the government, it can be viewed by the electorate as effectively a tax on policyholders.

The ICA submits that Queensland should remain competitively underwritten to avoid financial risk to governments, taxpayers and future policyholders. This will also avoid the potential for political interference with pricing of risk and government reliance on premiums collected for a mandatory, personal injury insurance scheme as a source of general revenue.

Private insurers are required to remain 'fully funded' meaning they must maintain sufficient reserves to pay all future claims giving injured people confidence that they will receive their full entitlements. Statutory insurance schemes underwritten by general insurers are also supported by the strong prudential regime in place under the *Insurance Act 1973*. In contrast, it is submitted that government monopoly schemes for statutory insurance are not subject to consistent, independent prudential regulatory oversight.

Implementation timeframes

Subject to the recommendations from this Review, insurers may be required to implement operational and procedural changes. The ICA and Insurers would welcome timely consultation in this regard. Ensuring that there are reasonable implementation timeframes will be critical to the success of any changes required.

Further engagement welcome

We hope this letter is of assistance. If you have any questions or comments in relation to our submission, please contact Alice Nichol (e: anichol@insurancecouncil.com.au or p: 0427 902 960).

Sincerely



Andrew Hall
CEO and Executive Director