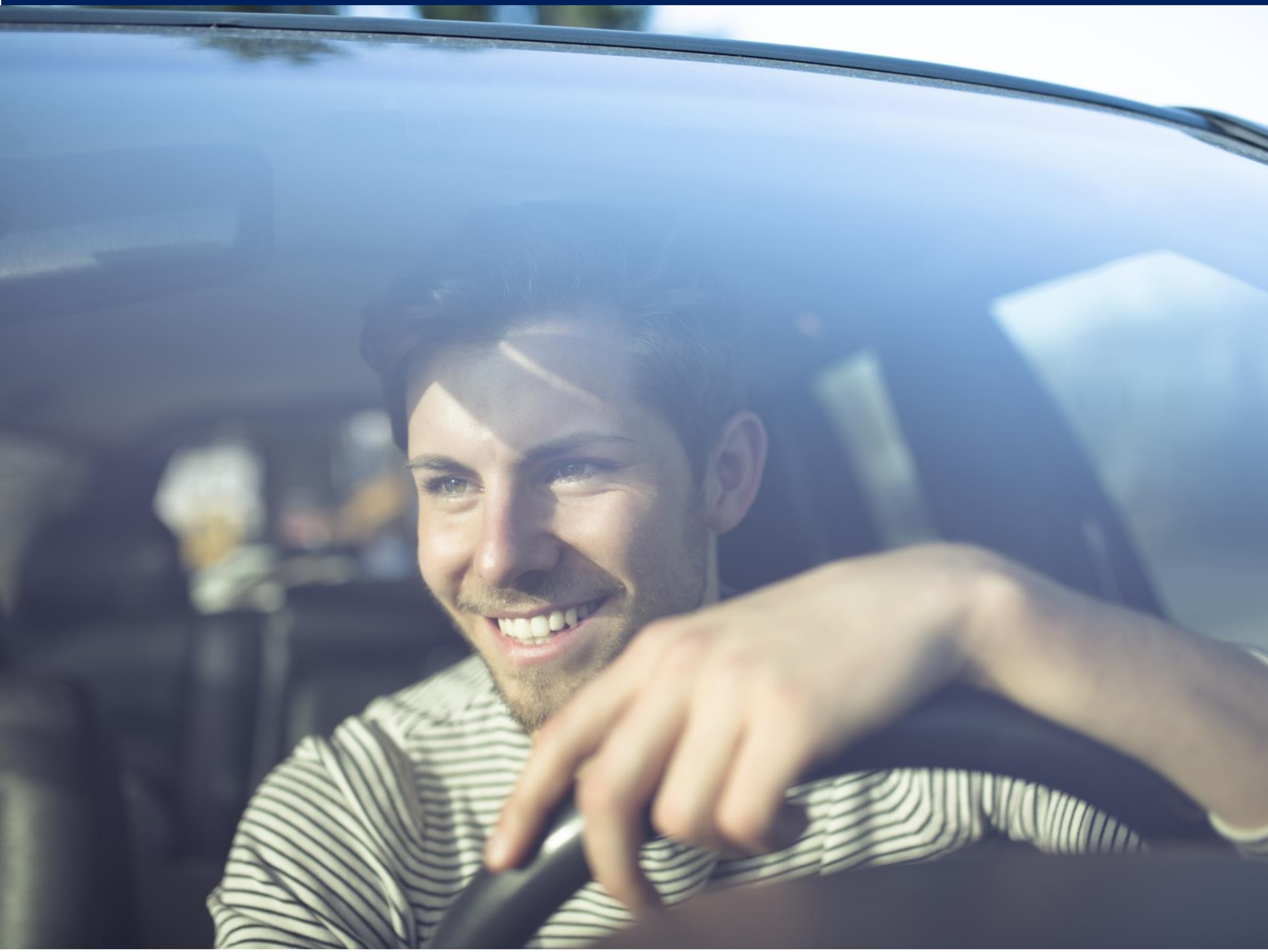
Submission

2023 Review of Queensland's Compulsory Third Party Insurance Scheme

21 April 2023



About QBE

QBE Insurance Group Limited is an international insurer with insurance products covering a diverse portfolio including property, crop, energy, marine and aviation. Headquartered in Sydney and listed on the Australian Securities Exchange, we employ more than 11,700 people in 27 countries around the world.

QBE Insurance (Australia) LTD (***QBE***) has offices in all Australian states and territories and provides a broad range of general insurance products to personal, business, corporate and institutional customers.

QBE has a major presence in Australian statutory classes, providing insurance and specialist agency services in most jurisdictions throughout the country. QBE also has extensive experience in these areas in international jurisdictions. QBE is one of the licenced insurers currently providing CTP insurance in Queensland.

Since its origins in Queensland over 130 years ago, QBE has been an integral part of the Australian business landscape, providing peace of mind to Australians during normal business and times of crises.

QBE is proud of its heritage and the support that it has provided to our customers and policy holders. Our purpose – enabling a more resilient future.

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Overview

In March 2023, the Motor Accident Insurance Commission (***MAIC***) announced that they were conducting a review (***Review***) of the Queensland CTP scheme (***scheme***) to identify opportunities to improve the scheme's overarching performance and sustainability.

QBE recognises the scheme consistently compares favourably when measured against the performance of CTP schemes operating in other Australian jurisdictions. The scheme has consistently delivered low cost CTP insurance premiums while maintaining a reasonable level of scheme efficiency and we commend the Queensland Government and MAIC on their ongoing commitment to stable and affordable premiums. We note that Queensland is the most affordable mainland CTP scheme which is reflected by the affordability index averaging at 21.4% for the 2021 to 2022 financial year.[1]

In the interests of ensuring that the scheme continues to deliver against its key objectives, QBE considers that there is scope to improve the competitiveness of the current model by providing greater incentive and opportunity for insurers to effectively compete on price. Amending scheme design settings to improve price flexibility without adversely affecting social equity or premium affordability for vehicle owners is in the interests of the motoring public and the long-term sustainability of the scheme.

QBE welcomes the opportunity to respond to the Queensland Government's Discussion Paper: 2023 Review of Queensland's Compulsory Third Party (CTP) insurance scheme (***Discussion Paper***) and is committed to working closely with MAIC to deliver the objects of the *Motor Accident Insurance Act 1994* ***(the Act)*** and optimal outcomes to motorists and injured road users.

Competition

QBE strongly believes that the scheme should remain competitively underwritten in a private market by privately owned insurance companies. Private underwriting reduces threats to Government finances by transferring risk and long term liabilities away from taxpayers and removes the otherwise significant cost to Government of scheme and claims administration.

Private underwriting also enables the regulator to focus on the primary role of regulating the scheme and measuring its performance against the objects of the Act, rather than administering it. When properly regulated, private sector underwriting encourages competition and creates an incentive for innovation in claims management and rehabilitation whilst leveraging private sector efficiencies and economies of scale.

Design improvements: a hybrid framework

In considering design improvements to the current privately underwritten scheme, we note that all CTP schemes necessarily involve a compromise between community rating (the pooling of risks) and risk rating (the differentiation of risks) to achieve a level of social equity within a sustainable operating environment.

QBE considers that the current scheme relies on a disproportionately high level of community rating, resulting in significant cross-subsidisation between different categories of vehicle owners. As the only differentiator for personal vehicles is currently limited to vehicle type, insurers are only able to set one premium per vehicle class, leaving very little room for price competition within that class. For insurers to be able to effectively compete on price, we believe there must be far greater scope for the material differentiation of risk.

QBE strongly supports the introduction of a hybrid framework where premiums are partially based on community rating and a degree of risk rating under a model that protects social equity and premium affordability. We submit that by retaining the existing regulated premium ceiling, vehicle owners would be protected and lower risk vehicle owners may enjoy premium reductions commensurate with a more competitive approach to pricing risk. By way of example, higher risk vehicle owners would not experience price discrimination as maximum premiums would be limited to levels set and reviewed by MAIC and all vehicle owners would otherwise receive fair treatment relative to others of a similar category. Improving price flexibility

[1] Motor Accident Insurance Commission, Annual CTP Scheme Insights: 2021 – 22.

will enable the scheme to continue to deliver measurable benefits to motorists and injured people, while also remaining a viable and attractive market for private sector insurers.

To reduce administrative overheads, we suggest that a model of risk rating based on individual risk factors could be drawn from information already collected by the Department of Transport and Main Roads (***DTMR***). This could include such factors as vehicle type and year of manufacture, owner age and location and owner demerit status. QBE believes the use of demerit point data in the setting of premium pricing will incentivise and reward safer driving practices through the provision of lower premiums (as occurs in other jurisdictions).

To enable this proposal to best deliver the benefits of enhanced market competition to consumers, QBE strongly recommends that the renewal process is better optimised to facilitate and encourage active consumer choice of preferred insurer. We commend MAIC on recently amending the registration process for new car buyers. This now periodically rotates the order in which listed insurers appear in section 8 of the letter of authority form (issued by DTMR for the dealer or agent to sign on behalf of individuals) to "help overcome primacy bias (and) to encourage motorists to actively select their CTP insurer".[2]

On the same basis, we believe the identification of a consumers existing insurer as the 'default' option at the point of policy renewal should be removed from the form in favour of promoting informed consumer choice. QBE considers that 'default' identification of a consumer's existing insurer creates a considerable barrier for insurers to compete for renewal business and strongly advantages insurers with a large existing market share.

QBE considers this simple process change would enhance consumer awareness of the benefits of introducing a degree of risk rating to the scheme (such as greater product offerings and price competition). This would also assist to address the concern raised in the Discussion Paper that the benefit of a competitive market is not visible to the majority of Queensland motorists under the current scheme.

Facilitating greater consumer choice

The current scheme is designed for new car buyers to independently select their choice of CTP insurer when they purchase a new or used vehicle through a motor dealer or agent. To deliver optimal benefit to all consumers, motorists should be encouraged to make an active and informed choice regarding which insurer best meets their individual needs and to switch insurers when alternative options offer greater benefit.

We note that the independent exercise of consumer choice is highly valued by motorists in Queensland, with 75% of new car buyers reporting that the "independent choice of CTP insurer" is " important" to them in a 2020 survey commissioned by MAIC.[3] Recent MAIC data also demonstrates that the vast majority of motorists (84%) are aware of their ability to switch CTP insurer, with over three quarters of new car buyers (77%) aware that they can select their preferred provider.[4] To that end, MAIC continues to observe an ongoing and upward trend in motorists switching insurer over the last few years which strongly "suggests that motorists are actively comparing and choosing their CTP insurer".[5]

The current design features which relate to the acquisition of CTP policies strongly reflects consumer emphasis on the importance of the exercise of active choice. Consumer independence is currently reinforced by the Act, where it is an offence for a for a person or motor dealer to interfere with a customer's choice of CTP insurer. In its monitoring and oversight capacity, DTMR audits new car dealerships to ensure that consumers are in a position to exercise independent choice, noting that as at 1 July 2022 the maximum penalty for contravention of this provision is 150 penalty units or $21,562.50.

The current approach which operates to reinforce the independent selection of preferred insurer is already delivering value to consumers. This would only be strengthened by optimising the renewal process through the removal of the 'default' insurer option (as discussed above). On this basis, **QBE does not support compromising on consumer choice by randomly allocating insurers to new car buyers at this time. QBE's strong preference is to amend the scheme to allow for greater competition and flexibility in the pricing of risk whilst maintaining affordability and social equity**. We consider that this design change will

[2] Motor Accident Insurance Commission, Quarterly CTP Scheme Insights: Oct-Dec 2022.
[3] Motor Accident Insurance Commission, Motorist Research Infographic 2020.
[4] Motor Accident Insurance Commission, General Motorist and New Car Buyer Research 2020 Summary Excerpt, 24 June 2020, p 5.
[5] Motor Accident Insurance Commission, Annual CTP Scheme Insights: 2020-2021.

improve competition and provide consumers with more product offerings and price variation from which they can make an informed choice regarding which insurer best meets their individual needs.

Premium equalisation mechanism

QBE considers that the mechanics of a premium equalisaiton mechanism would add considerable complexity to the operating environment in Queensland and introduce an increased level of uncertainty with respect to the future profitability of the scheme. As reflected in the Discussion Paper, introducing a premium equalisation mechanism would require substantial legislative change. This would introduce considerable actuarial and administrative costs, which carry with them the material risk that motorists will observe an increase in the price of their policies.

Research commissioned by MAIC in 2020 demonstrates that consumers consistently identify premium affordability as among the most important elements of the scheme.[6] Increased uncertainty as to the future profitability of the scheme may limit market competition and the desirability of pursuing new innovation opportunities as they arise. We also note that the complexity of the Risk Equalisation Mechanism (REM) operating in New South Wales has been questioned in relation to the extent of the benefit it delivers to motorists, particularly in relation to the higher risk subgroups used in the implementation of the REM.

We believe it is important for any amendments to design settings to allow sufficient flexibility for insurers to approach emerging opportunities and capitalise on innovations in the interests of the motoring public. **QBE does not support the introduction of a profit equalisation mechanism. QBE considers that the considerable complexity, cost and administrative and compliance burden that this mechanism is likely to introduce may adversely impact premium affordability and limit innovation incentives**. We do not believe this option would deliver sufficient value to motorists when measured against the benefits of other scheme design changes contemplated by this submission.

Conclusion

We appreciate the opportunity to respond to the Review and the corresponding Discussion Paper. Our key recommendations follow:

- QBE strongly believes that the scheme should remain competitively underwritten in a private market by privately owned insurance companies. Private underwriting transfers risk and long term liabilities away from taxpayers whilst encouraging competition and leveraging private sector efficiencies.
- QBE strongly supports the introduction of a hybrid framework of community and risk rating**.** This, coupled with control of the existing price ceiling, would allow insurers greater opportunities to leverage innovations and incentives to attract and retain Queensland motorists while effectively delivering the objects of the Act and preserving social equity and premium affordability for vehicle owners.
- To best realise the consumer benefits of the hybrid framework proposed, QBE strongly recommends that the renewal process is better optimised to facilitate and encourage active consumer choice of preferred insurer by removing the ‘default’ identification of a customer’s existing insurer at the point of renewal.
- QBE considers that the current scheme design features which reinforce the independent selection of preferred insurer is already delivering value to consumers. As such, QBE does not support the random allocation of insurers to new car buyers at this time. QBE strongly prefers amending the scheme to include a degree of risk rating which will facilitate greater choice of product offering in a more competitive and sustainable market.
- QBE does not support the introduction of a profit equalisation mechanism on the basis that the considerable complexity, cost and administrative and compliance burden may adversely impact premium affordability and limit innovation incentives. We consider that any amendments to scheme design settings should allow sufficient flexibility for insurers to approach emerging opportunities and capitalise on innovations in the interests of the motoring public.

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[6] [6]Motor Accident Insurance Commission, General Motorist and New Car Buyer Research 2020 Summary Excerpt, 24 June 2020, p 7.

We trust that our recommendations assist the reviewers. Please do not hesitate to contact Kate O'Loughlin, General Manager, Government Relations & Industry Affairs, at kate.oloughlin@qbe.com, or Chris Butel, General Manager CTP at chris.butel@qbe.com if we can provide any further assistance.

QBE