

Submission to the:

**Discussion paper: 2023 Review of Queensland's
Compulsory Third Party (CTP) insurance scheme**

Recipient organisation:

Motor Accident Insurance Commission (MAIC)

Lodging organisation:

Taxi Council of Queensland Incorporated

Name/s of author/s:

**Blair Davies
Chief Executive Officer
Taxi Council of Queensland
Unit 8, 96 Cleveland Street
Stones Corner QLD 4120**

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TABLE OF CONTENTS

Introduction	3
Scenario 1 – Status quo	4
Scenario 2 - Existing privately underwritten model with scheme design changes	6
Premium Equalisation Mechanism	6
Random allocation	8
Multiple licences	9
Active decision-making	9
Other/Combination of scenarios.....	10
Scenario 3: A public underwriting model	10
Conclusion.....	12

Introduction

The taxi industry plays a unique and pivotal role in Queensland's public passenger transport system. Taxis operate on-demand, 24 hours a day, 365 days a year, offering door-to-door transportation services. Each year, Queensland's 3,200+ taxis collectively travel over 300 million kilometres while transporting over 80 million passengers. The industry directly provides gainful work and business opportunities for more than 10,000+ people. Taxis play a major role in servicing the needs of the community in general and key sections of the community in particular. These include (but are not limited to) -

- the elderly;
- people with disabilities;
- the young or vulnerable;
- disadvantaged socio-economic groups;
- tourists (domestic and international); and
- business travellers.

In many parts of regional Queensland, taxis are often the only form of public passenger transport available. This is also effectively true for many fringe suburbs and the conurbations surrounding cities such as Brisbane and the Gold Coast where low density development contributes to chronic under-servicing by mass transit (bus and rail) public transport options.

Importantly, taxis are the only component of Queensland' personalised transport sector that offer fully wheelchair accessible services. Wheelchair accessible taxis (WATs) comprise approximately 20 percent of the overall taxi fleet.

Taxis are quite literally for many Queenslanders at some time or other (and especially those travelling with wheelchairs and large mobility devices), an essential service that must remain both available and viable. The characteristics of Queensland's urban form(s) and the aging of the population will likely see this reliance on taxis continue well into the future.

Relevantly for this submission, taxi sedans and wagons are community rated within Queensland's Compulsory Third Party (CTP) insurance scheme in Class 3 and taxi vans, which are typically wheelchair accessible¹, are community rated within Classes 10A and 11. Also relevant for this submission, taxi services in Queensland are specifically, and separately, regulated by the State Government in terms of –

- supply (licences);
- safety;
- operation; and
- pricing (i.e. all hail and rank originating trips irrespective of vehicle type, plus all WAT trips where at least one passenger is travelling in a wheelchair).

¹ *Wheelchair Accessible Taxis (WATs)*

This submission by the Taxi Council of Queensland (TCQ)² responds directly to each of the questions put by the Motor Accident Insurance Commission (MAIC) in its discussion paper, “2023 Review of Queensland’s Compulsory Third Party insurance scheme” (the Paper).

Scenario 1 – Status quo

- *How important is price competition to you or your organisation?*

CTP premiums are a significant cost for TCQ members’ taxi businesses.

In TCQ’s view, MAIC’s regulated ceilings for CTP premiums currently provide reasonable protection for our members against insurers exploiting market supply restrictions in the Queensland CTP insurance scheme (the Scheme). However, TCQ agrees with the Paper’s concern that insurers have (nevertheless) been able to achieve significantly higher profit margins than targeted by those ceilings³. In sum, the Scheme would clearly work better for CTP payers (Payers) if competition amongst insurers promoted their filing of premiums between MAIC’s regulated floors and ceilings, rather than simply defaulting to the latter as routine practice.

- *Should promoting price competition remain a valid objective? Why or why not?*

Yes, promoting effective and efficient market based price competition remains the most reliable means for the Scheme to improve delivery of cheaper premiums for Payers. In TCQ’s view, CTP insurers’ patterned behaviour of routinely setting premiums at the regulated maxima (i.e. MAIC’s ceilings) presents as no cause for abandoning the goal of a competitive market, merely evidence that the existing system is somewhat flawed and open to possible abuse. As a possible remedy to same available within the Status Quo, it is highly unlikely that every insurer could file the very same premium for each CTP class if MAIC simply withheld supply of its ceilings (a piece of information) prior to the quarterly filings, or more precisely at least before all insurers had lodged an initial quarterly filing⁴.

- *Do you support retaining the existing scheme with no reforms? Why or why not?*

Yes (conditionally). TCQ considers the existing scheme to be working reasonably well and so would support its retention subject the following two caveats.

Firstly, TCQ considers the current number of separate CTP Classes at 26 to be unnecessarily cumbersome and inefficient. As a case in point, the premiums for Classes 3, 4 and 26 have been aligned by MAIC since 1 October 2021 and the experience over the ensuing 18 months has demonstrated that the classes can reasonably be conflated into a single larger class. In TCQ’s view, management of risk using community rating arrangements will always materially benefit from constructing classes with larger vehicle pools rather than smaller vehicle pools whenever it is viable

² TCQ is the peak representative body for the taxi services industry and more broadly, the personalised transport sector, in Queensland.

³ See page 16 and commentary that Taylor Fry study showed actual average profit margins around 20 percent rather than the scheme’s default target of 8 percent.

⁴ Where an insurer filed a premium above the ceiling they could be requested to refile or simply have their filing defaulted to the ceiling with or without some penalty.

to do so⁵. TCQ accordingly recommends that Classes 3, 4 and 26 be amalgamated into a new single class.

Secondly, TCQ also considers that the current arrangement of wheelchair accessible taxis (WATs) and other personalised transport vans being grouped with buses presents as suboptimal for community rating purposes⁶ under the CTP Scheme and problematic in terms of the market distorting impact for personalised transport services. TCQ accordingly recommends that WATs and other licenced personalised transport vans be reclassified and grouped with their sedan and wagon counterparts in the proposed new class constructed from amalgamating Class 3, 4 and 26⁷.

• *What, if any, impact would there be on you or your organisation (if applicable) if the CTP scheme remained as is?*

Nil, if the recommended changes noted above were adopted.

TCQ would be very concerned if WATs remained subject to higher CTP premiums than taxi sedans / wagons on an ongoing basis, simply because they were classified with buses under the Scheme rather than community rated with other personalised transport vehicles. Higher CTP premiums for WATs, if allowed to continue, risk promoting undesirable distortions in the personalised transport services market that can only disadvantage members of the community who rely on such vehicles for their essential mobility.

• *What material opportunities, risks or considerations, if any, do you believe need to be considered in the review of this scenario?*

TCQ agrees with the suggestion in the Paper that our members, along with other CTP papers, value affordability over other attributes including greater choice of providers. However, TCQ is not persuaded by the Paper's concerns about one or more of the existing CTP insurers potentially exiting the Scheme. If the current 4 insurers are indeed averaging sustained profit margins of 20 percent⁸, then the exiting of any insurer(s) would still leave the remaining insurers with healthy profit margins of 20 percent⁹ which compare more than favourably with prospective profit margins of 8 percent that supposedly enticed them into the market. In TCQ's view, the undifferentiated nature of the Queensland CTP insurers' product offerings substantively diminishes the potential ongoing harm for Payers from any insurer's withdrawal from the Scheme¹⁰.

⁵ i.e. larger pools are more robust, less volatile, and so better able to accommodate random outlier events.

⁶ i.e. personalised transport vehicles (e.g. WATs) present as a separate "community" to mass transit vehicles (e.g. buses).

⁷ i.e. the proposed new amalgamated class therefore comprising the community of:

- a. all "for-hire with driver" vehicles licensed by the Department of Transport and Main Roads (TMR) as personalised transport vehicles and identifiable as such in the Transport Registration and Integrated Licensing System (TRAILS), namely all taxis, limousines and book-hire vehicles; plus
- b. all "for-hire without driver" vehicles.

⁸ As per Taylor Fry actuarial study on page 16

⁹ i.e. Total revenue would be unaffected by the exit of any insurer where all insurers are consistently pricing at class ceilings and the exit does not (and cannot) remove any vehicles from the total pool. Total costs would similarly be unaffected assuming there are no inverse economies of scale.

¹⁰ e.g. CTP payers would be left paying premiums at the class ceilings whether 1, 2, 3, or 4 insurers remain, although there could be one-off disruptive impacts if/when an insurer actually exits.

Scenario 2 - Existing privately underwritten model with scheme design changes

Premium Equalisation Mechanism

- *Do you support adoption of an insurer premium equalisation mechanism in the scheme? Why or why not?*

No, albeit only because TCQ is not convinced that the technologies to support such a mechanism are sufficiently mature to allow one to operate efficiently and effectively. Anecdotal reports from TCQ's contacts in NSW suggest that complexities associated with a premium equalisation mechanism create opportunities for gaming by insurers and payers that work against the overall interests of the CTP scheme and the majority of (non-gaming) CTP payers. Accordingly, TCQ considers that reforms to the Scheme flowing from the 2023 review should focus on promoting initiatives that encourage insurers to improve their own business efficiency as a way of securing competitive advantage rather than providing new opportunities to game the Scheme.

As an alternative to a premium equalisation mechanism, TCQ considers there may be benefits in the Scheme reconsidering its state-wide approach to community rating. Other jurisdictions' CTP schemes recognise differential risk profiles associated with predominantly urban versus regional travel. As a case in point, TCQ has members whose taxis in regional towns travel significantly less kilometres and have substantively lower claims frequencies than their urban counterparts or even the average commercial vehicle in Class 1. In TCQ's view, the simplest approach to remedying this inequity would be re-classify such taxis into Class 1 (e.g. rather than via a premium equalisation mechanism or introducing an urban / regional split in classes across the Scheme).

- *Do you believe that the introduction of a premium equalisation mechanism would improve insurer price competition in the scheme?*

No, at least not on any evidence of which TCQ is aware from NSW experiences.

- *If the government were to introduce a premium equalisation mechanism in the Queensland CTP scheme, what would this look like? In particular:*

» *Which vehicle classes should the mechanism apply to?*

Presumably all classes unless a compelling case can be presented to exempt a particular class.

» *What mechanisms would need to be established for funding deficits and returning surpluses?*

No comment.

» *A potential model for passing the funds would be to use a clearing house. Do you agree with this model and if so, should it be revenue neutral?*

No comment.

» *Which available rating factors should the mechanism apply across?*

No comment.

» *What definitions of risk factors should be used?*

No comment.

» *What rules should be implemented to govern the timing of data submissions and contributions / withdrawals from the clearing house?*

No comment.

• *What, if any, impact would there be on you or your organisation (if applicable) if the government were to introduce a premium equalisation mechanism?*

TCQ would presumably have to develop and distribute information to members about how best to adapt to their business models for the premium equalisation mechanism.

• *What measures could you or your organisation adopt to offset any negative impacts?*

Unknown.

• *Does this scenario carry any broader implications for insurer competition and innovation?*

In TCQ's view, the proposal presents as a regulatory intervention that fails each of the threefold test for good regulation, namely –

- not appropriate (i.e. the random distribution of risk that the mechanism seeks to mitigate does not qualify as a market failure);
- not effective (i.e. the experience of NSW does not evidence best practice outcomes for a CTP scheme or best practice premium outcomes for payers);
- not efficient (i.e. any equalisation mechanism presents as a complex initiative involving substantive net costs to set up, maintain and protect against unintended externalities such as gaming).

• *What material opportunities, risks or considerations, if any, do you believe need to be considered in the review of this scenario?*

In TCQ's view, any proposal to introduce a premium equalisation mechanism should consider practical realities of current and imminent technologies versus foreseeable technologies of less certain and more distant timing. In TCQ's view, the merits for

introducing a premium equalisation mechanism would likely improve as key technological advances become available on large scale, albeit not necessarily¹¹.

Random allocation

• *Do you support mandating a random allocation of CTP insurer in the scheme? Why or why not?*

No, TCQ considers that reforms to the Scheme flowing from the 2023 review should focus on promoting initiatives that encourage insurers to improve their own business efficiency as a way of securing competitive advantage and financial reward. Institutionalising arrangements for dulling exposure to market based risks simply presents as unsupportable because they artificially distort the signals that otherwise inform economic actors' prudent business decision making.

• *Do you believe that the introduction of random allocation would improve insurer price competition in the scheme?*

No, anecdotal reports from TCQ's contacts in South Australia (SA) suggest that random allocation has not improved price competition in that jurisdiction's CTP scheme.

• *What, if any, impact would there be on you or your organisation (if applicable) if the government were to introduce random allocation?*

Nil.

• *What measures could you or your organisation adopt to offset any negative impacts?*

Unknown.

• *Does this scenario carry any broader implications for insurer competition and innovation?*

In TCQ's view, the proposal presents as a regulatory intervention that fails each of the threefold test for good regulation, namely –

- not appropriate (i.e. the random distribution of risk that the mechanism seeks to mitigate does not qualify as a market failure);
- not effective (i.e. the experience of SA does not evidence best practice outcomes for a CTP scheme or best practice premium outcomes for payers);
- not efficient (i.e. any random allocation arrangement presents as substituting algorithmic regulatory decision making for distributed consumer choice which is unlikely to be a net neutral or negative cost for the Scheme).

¹¹ *The prospect of human driven vehicles being replaced by fully autonomous vehicles (AVs) at some time in the foreseeable future will have substantial impact on insurance products generally and CTP Schemes in particular. It is entirely possible that different stages along the path to large scale deployment of AVs may advantage or disadvantage (e.g. make redundant) the implementation of a premium equalisation mechanism.*

- *What material opportunities, risks or considerations, if any, do you believe need to be considered in the review of this scenario?*

In TCQ's view, there would be a material risk of one or more insurers adopting less competitive strategies in relation customer acquisition.

Multiple licences

- *Do you support the introduction of multiple licences for CTP insurers? Why or why not?*

In TCQ's view, the multiple licence initiative presents as cosmetic rather than substantive.

- *Do you believe that the introduction of multiple licences for CTP insurers would improve insurer price competition in the scheme?*

No.

- *What, if any, impact would there be on you or your organisation (if applicable) if the government were to introduce multiple licences for CTP insurers?*

No comment.

- *What measures could you or your organisation adopt to offset any negative impacts?*

No comment.

- *Does this scenario carry any broader implications for insurer competition and innovation?*

No comment.

- *What material opportunities, risks or considerations, if any, do you believe need to be considered in the review of this scenario?*

In TCQ's view, it is not clear that marketing services at the brand entity level, rather than the general insurer level, is consistent with the Queensland Scheme's state-wide community rating approach to setting premiums.

Active decision-making

- *Do you support the introduction of active decision-making of CTP insurer by motorists? Why or why not?*

No, but only because TCQ considers that the introduction of active decision-making does not present as a reform wanted or needed by Payers. However, if there was

some reasonable prospect that the initiative would somehow promote CTP insurers to file premiums below MAIC's ceiling, then TCQ would support it.

• *Do you believe that the introduction of active decision-making of CTP insurer by motorists would improve price competition in the scheme?*

No.

• *What, if any, impact would there be on you or your organisation (if applicable) if the government were to introduce active decision-making of CTP insurer by motorists?*

No comment.

• *What measures could you or your organisation adopt to offset any negative impacts?*

No comment.

• *Does this scenario carry any broader implications for insurer competition and innovation?*

No comment.

• *What material opportunities, risks or considerations, if any, do you believe need to be considered in the review of this scenario?*

No comment.

Other/Combination of scenarios

• *Are there any other scenarios, or a combination of these scenarios, that you believe would increase competition in the scheme? Please outline what this is/these are, including the benefits you believe would be achieved.*

No (conditionally). As noted above, TCQ recommends the Scheme's class structure be refined and improved by –

- amalgamating Classes 3, 4 and 26 into a new single class; and
- WATs and other vans licenced to provide personalised transport services be grouped with their sedan / wagon counterparts in the proposed new single class comprising Classes 3, 4 and 26.

Scenario 3: A public underwriting model

• *Do you support a transition to public underwriting for the scheme? Why or why not?*

TCQ considers transitioning to a public underwriting model to be a radical change for the Scheme rather than incremental reform. That being the case, TCQ is inclined to reserve its position until seeing compelling argument that any such radical reform will produce demonstrable net public benefit. TCQ considers that no such argument was supplied in the Paper.

For completeness, TCQ observes that generating net public benefit may be problematic if the Paper is correct in claiming –

“Queensland road users are protected by the most affordable Compulsory Third Party insurance scheme in mainland Australia, and one that delivers fair and timely compensation and rehabilitation support to people injured in road crashes through no fault of their own.”

and

“While the scheme continues to perform well and in a stable manner ...”¹²

• What, if any, impact would there be on you or your organisation (if applicable) if the scheme were to move to a public underwriting model?

Nil.

• Are there any significant economic, social or environmental impacts for your organisation in moving to a public underwriting scheme?

No.

• If the scheme were to move to a public underwriting model, do you consider that there would be any implementation issues or risks for your organisation that need to be considered in the review of this scenario?

No.

• If the scheme were to move to a public underwriting model, to what extent do you believe there needs to be private sector service delivery?

» What are your views on the claims management functions for minor claims being performed by external claims management providers?

TCQ prefers the use of external management providers based on our experience. In TCQ’s view, private sector suppliers appointed via a competitive public tendering process and operating under a prudently constructed contract will typically be more efficient and outperform in-house public sector providers of the same services.

» What are your views on the claims management functions for complex claims being performed by external claims management providers?

As above, TCQ prefers the use of external management providers based on our experience. In TCQ’s view, private sector suppliers appointed via a competitive public tendering process and operating under a prudently constructed contract will typically be more efficient and outperform in-house public sector providers of the same services.

¹² See page 4 of the Discussion Paper

» *What opportunities are there in an external claims management arrangement to pursue positive incentives for good claims management outcomes?*

From TCQ's experience with claims management in the taxi industry, expert experienced external suppliers can deliver innovative efficiencies if encouraged and rewarded to do so via prudently constructed contracts. In TCQ's view, ensuring that the selection process identifies the most competent candidate and the contract rewards good performance and discourages undesirable behaviour are critical success factors.

» *What compliance costs would be involved for your organisation?*

No comment

• *If the scheme does move to public underwriting with external claims management, would your organisation be interested in being a claims management service provider? Why or why not?*

No, TCQ is not in the business of providing such services.

Conclusion

For more than 60 years TCQ has represented the Queensland taxi industry through pro-active engagement on public policy debates relevant to the provision of taxi services. This submission continues that tradition by highlighting –

- the current 26 classes in the Scheme present as unnecessarily cumbersome and inefficient, and an uncontroversial remedy for same exists in simply amalgamating Classes 3, 4 and 26 into a single class.
 - the current arrangement of grouping WATs (and other personalised transport vans) with buses presents as suboptimal for community rating purposes under the Scheme and a potential cause for market distortion, and an uncontroversial remedy for same exists in simply reclassifying these licensed vehicles with their sedan and wagon counterparts, namely the proposed new class constructed from amalgamating Class 3, 4 and 26.
-