2023 Review of Queensland's Compulsory Third Party (CTP) insurance scheme

Discussion Paper

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Introduction

About IAG

IAG is the largest general insurer in Australia and New Zealand. Trading as NRMA Insurance, IAG currently participates with material market shares in three of the four privately underwritten Compulsory Third Party (**CTP**) schemes in Australia – New South Wales, the Australian Capital Territory and South Australia. IAG operated as a licenced insurer under the NRMA Insurance brand in the Queensland (**Qld**) CTP scheme between 2001 and 2013, exiting the scheme effective from 1 January 2014. We retain a very small run off portfolio of Qld CTP claims.

With over 70 years of personal injury experience, IAG has considerable expertise and experience in CTP schemes across claims management, underwriting, pricing and reserving, market dynamics, scheme design, and regulatory engagement. This provides a recovery focused, efficient claims management operation as well as sophisticated pricing with dedicated internal actuaries and experts.

IAG offers a range of insurance products in the Qld general insurance market under the NRMA Insurance brand. Product offerings include car, home, motorcycle, boat, caravan, travel, and business insurance.

Executive Summary

IAG welcomes the opportunity to make a submission to the 2023 Review of Queensland's Compulsory Third Party (**CTP**) insurance scheme discussion paper.

At IAG, our purpose is to make your world a safer place. We recognise that our role extends beyond transferring risk and paying claims. Our purpose drives our business to work collaboratively with the community to understand, reduce and avoid risk, and to build resilience and preparedness. This results in better outcomes for the community and means fewer claims and lower costs for our business.

We work collaboratively with government, industry bodies and Australian and international organisations on a range of topics and issues that relate to our customers, our people and the community including safety on the road.

Our purpose is underpinned by our belief that we can make tomorrow safer than it is today for everyone that counts on us. We believe our purpose aligns with the vision of the Motor Accident Insurance Commission

(**MAIC**) to ensure financial protection that makes Queensland (**Qld**) stronger, fairer and safer through overseeing an affordable and efficient CTP scheme.

IAG supports retention of the existing privately underwritten CTP scheme in Qld, with scheme design changes (**Scenario 2**). Based on our experience in the Qld CTP scheme as well as our experience in personal injury schemes more broadly, we believe Scenario 2 would provide increased benefit to customers through more competitive pricing and more innovative product offerings, address concerns relating to individual insurer profitability and remove current barriers for new entrants to the scheme.

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Scenario 1

Status quo

IAG does not support the retention of the existing Queensland (**Qld**) CTP scheme. The Motor Accident Insurance Commission (**MAIC**) has reported that a lack of competition between insurers in the setting of premiums remains an ongoing challenge and that the variance in individual insurer profitability brings the stability and sustainability of the scheme into question.[1]

We believe scheme design changes are essential to prevent potential market failure, further insurer exits and a continued lack of new entrants.

Given the reported variance in individual insurer profitability, we understand insurers are experiencing challenges and may be at risk of exiting the scheme.[2]

IAG acknowledges the positive changes implemented in the Qld CTP scheme in recent years, including MAIC's reduction of the ceiling margin allowance for insurers to reduce excess insurer profits and promote competition and the introduction of laws to prevent claims farming practices. Unfortunately, profitability variances across individual insurers remain, despite these changes.

Adoption of Scenario 1 would not address the concerns of MAIC in relation to scheme stability and sustainability, or the challenges experienced by some of the insurers currently operating within the scheme. It would increase the risk of insurers exiting the scheme and reduce the likelihood of new scheme entrants, further reducing competition between insurers.

How important is price competition to you or your organisation?

While IAG is supportive of price competition, we consider that it should be one in a suite of competition levers available to insurers. An over-reliance on price competition can discourage product innovation and does not encourage insurers to compete on claims service. It can also impact insurers' long-term sustainability as insurers may be required to reduce margins to remain competitive in market.

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

Price competition should remain a valid objective as it is a key advantage of a privately underwritten scheme over a publicly underwritten scheme. However, as noted above, we consider that price competition should be one in a suite of competition levers available to insurers. If price is the only consideration for motorists, there is no incentive for insurers to offer additional value through product innovation which ultimately does not benefit motorists nor the Qld community.

[1] Motor Accident Insurance Commission (MAIC) Discussion paper: 2023 Review of Queensland's Compulsory Third Party (CTP) insurance scheme, page 4

[2] RACQ Annual Report 2021-2022, page 11

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

IAG does not support the retention of the existing scheme with no reforms. The current scheme does not promote robust competition between insurers and presents several barriers to potential new entrants.

Fewer insurers in the market discourages competition and continued innovation, ultimately to the detriment of motorists. IAG supports legislative and regulatory change which facilitates and encourages competitive behaviour from insurers which benefits motorists and more equitable portfolio mixes for insurers to ensure long-term individual insurer profitability which in turn, promotes the stability and sustainability of the scheme.

No insurers have entered the Qld CTP scheme in recent years, despite new insurers entering other privately underwritten CTP insurance schemes.[3] We consider that removal of the barriers outlined below would drive insurer competition and encourage new entrants to the Qld CTP scheme, thereby providing more choice to motorists.

Customer choice and lack of competition

The current process for the renewal of CTP policies does not support active customer choice. While customers can "switch" insurers, less than 1% of motorists have switched insurer each month since the beginning of 2019, on average[4]. We consider that few customers change insurers as the process is reliant on positive action initiated by the customer. There is also a lack of incentive for motorists to change insurer as all insurers are currently priced at the maximum with little differentiation of product and service offerings.[5]

Our experience in the ACT and South Australian CTP schemes (where insurer prices are displayed on the registration notice) has been that motorists switch insurers at higher rates, especially when clearly presented with an alternative price or service differentiation, such as a more favourable Claimant Service Rating (CSR).[6]

New vehicle registration

We consider that there is an opportunity to strengthen the current distribution model for new vehicle registrations to ensure a fairer business mix for all insurers. The pricing of CTP policies sold through motor dealerships generally provides higher profits to insurers as new vehicles are typically lower risk for reasons including enhanced safety features. These higher profits can be used to subsidise the remainder of an insurer's portfolio, and potentially lower the average premium of higher risk vehicle classes. Currently, approximately 65% of the new car market is associated with two insurers in the market.[7] A more equitable distribution of this market across all insurers would assist to ensure long-term profitability for all insurers and in turn, promote the stability and sustainability of the scheme.

To facilitate this, IAG supports the random allocation of CTP policies for new vehicles/dealer registrations. This is discussed further in our response to the discussion questions for Scenario 2 – Random allocation.

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[3] Qld-based insurer Youi Pty Ltd entered the NSW CTP market in December 2020 and the SA CTP market in July 2022. Suncorp entered the ACT CTP market in July 2013.

[4] Motor Accident Insurance Commission (MAIC) Discussion paper: 2023 Review of Queensland's Compulsory Third Party (CTP) insurance scheme, page 10

[5] Ibid, page 15

[6] For further details of Claimant Service Rating (CSR), refer to page 15.

[7] Motor Accident Insurance Commission (MAIC) Quarterly CTP Scheme Insights: October to December 2022, New registrations through motor dealers (maic.qld.gov.au/publications/quarterly-ctp-scheme-insights-oct-dec-2022)

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

The implementation of scheme changes to the Qld CTP scheme will influence IAG's position regarding entry to the scheme. Such changes may include measures to support active decision-making in the selection of a CTP insurer and changes to the allocation of the dealer market as noted above. Should the scheme remain as is, it is unlikely that IAG would enter the scheme in the short to medium term.

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

Whilst the scheme is considered profitable at whole of scheme level, not being able to obtain a share of new vehicle registrations prevents insurers from being able to subsidise higher risks with lower risks, a requirement in a community-rated scheme without rating factors that match technical price with risk price charged.

Scenario 2

Retain the existing privately underwritten model with scheme design changes

IAG supports retention of the existing privately underwritten CTP scheme in Queensland (**Qld**), with scheme design changes. We consider that there is a significant opportunity for the Motor Accident Insurance Commission (**MAIC**) to reinvigorate the Qld CTP scheme for the benefit of motorists and the Qld community more broadly.

Adoption of the potential changes outlined in Scenario 2, particularly active decision-making and random allocation of new vehicle registrations, would remove current barriers for new entrants to the scheme, encourage continued innovation from incumbent insurers, and would provide increased benefit to customers through more competitive pricing and more innovative product offerings. We also consider some of the potential changes to be more cost effective to implement than others in achieving these objectives. For example, random allocation of new vehicle registrations rather than all vehicles. This is discussed further in the responses to the questions below.

Premium Equalisation Mechanism

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

IAG considers that a premium equalisation mechanism may be of benefit if the scheme continues to be community rated and there is no random allocation of new vehicle registrations. In these circumstances, a premium equalisation mechanism would balance insurers' long term profitability concerns, including capital adequacy implications, with premium affordability issues in high-risk segments of the market. A premium equalisation mechanism may achieve this balance however the complexity associated with such a mechanism must be weighed against the benefits achieved.

A less complex, more operationally efficient method of balancing insurer profitability concerns and premium affordability issues in high-risk segments of the market is the random allocation of new vehicle registrations. The pricing of CTP policies sold through motor dealerships generally provide higher profits to insurers as these vehicles have enhanced safety features and are typically lower risk. The higher profits generated by new vehicle registrations can be used to subsidise the remainder of an insurer's portfolio. This is discussed further in responses to the discussion questions for Scenario 2 – Random allocation.

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

The positive impact of a premium equalisation mechanism on price competition may depend on the introduction of other changes such as additional rating factors. On its own, a premium equalisation mechanism may be more beneficial to address the issue of insurers not being able to adequately acquire the correct premium to match the risk. It may disincentivise targeting of preferred risk segments and encourage targeting of market segments where risks are considered greater than the premium received (for example, younger drivers and older vehicles).

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?***

  The mechanism should apply to vehicle classes traditionally considered higher risk, with more adverse claims frequency (for example, taxis, hire cars, trucks, buses). Complexity of the mechanism could also extend to risk factors within each vehicle class such as vehicle and driver age.

  Consideration could also be given to the inclusion of lower risk categories, such as passenger vehicles as a premium equalisation mechanism may be a two-way mechanism with “good risks” subsidising “bad risks” and vice versa.

  Given the complexity of such a mechanism, it is recommended that it be limited to more populated vehicle classes.

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

  A clearing house process would need to be established for insurers to pay and receive funds. The clearing house which operates in NSW could be considered as a model for review.

- ***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?***

  IAG agrees that a revenue neutral clearing house is an appropriate model.

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

  Appropriate actuarial data would assist in the identification of relevant risk rating factors, however rating factors such as vehicle class, age of youngest driver and geographical region (metro/regional) are often predictors of poorer claims experience.

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

  Actuarial analysis would be required to determine the definition of risk factors to ensure industry alignment.

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

  As the Qld Government distributes CTP insurance, a data integration process could be established to determine the equalisation amounts and then an invoice generated for insurers, with funds transferred to the receipting insurer. We suggest that this process be undertaken on a quarterly basis.

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

The introduction of a premium equalisation mechanism may create an incentive for IAG (and other potential entrants) to assess entry to the Qld CTP scheme, however this would depend on the mechanism established.

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

This would depend on the mechanism established, however an agreed process adopting successful aspects from the NSW risk equalisation mechanism (**REM**) may assist in the avoidance of negative impacts.

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

A premium equalisation mechanism may assist to address current issues whereby the scheme is profitable at a whole-of-scheme level, but there is variance in individual insurer profitability, reducing the likelihood of insurers exiting the scheme.

A premium equalisation mechanism may also encourage insurers to tailor propositions or innovate to attract particular market segments as it would be more viable for insurers to insure these risks.

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

We suggest that a comprehensive examination of the NSW REM and its associated processes be undertaken, to draw on the length of experience in that jurisdiction.

Risks which should be considered in the review of this scenario include the potential for the mechanism to be ultimately inadequate to address the inequality of risk premium, in addition to the complexity and cost of its implementation. As noted above, random allocation of new vehicle registrations may be a less complex, more operationally efficient method of balancing insurer profitability concerns and premium affordability issues in high-risk segments of the market.

Random allocation

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

IAG supports the random allocation of CTP insurers for new vehicles/dealer registrations. We do not support random allocation for other CTP business as it would introduce administrative burden to the scheme at large for minimal benefit.

New vehicle registrations

IAG supports the random allocation of CTP insurers for new vehicles/dealer registrations. The benefits of new vehicle registration to CTP insurers are briefly outlined in our response to the discussion questions for Scenario 1. The pricing of CTP policies sold through motor dealerships generally provides higher profits to insurers. This is because new vehicles typically have a lower risk profile as they have enhanced safety features to prevent or mitigate the impact of motor accidents. These higher profits can be used to subsidise the remainder of an insurer's portfolio, and possibly reducing average premium across the insurer's portfolio.

We acknowledge that inducements for CTP insurance business are prohibited under section 96 of the *Motor Accident Insurance Act 1994* (**the Act**), however section 96(2)(ii) allows for the payment of donations to charities and road safety research entities in exchange for CTP business.

We note there has been concern in the past that insurers continue to incentivise dealers notwithstanding section 96[8]. We consider that random allocation of new vehicle/dealer registrations would address this concern. This would also enable insurers' expenses to be redistributed to claims service innovation and/or returned to motorists through lower premiums.

To strengthen the intent of MAIC to prohibit inducements and support charities and road safety research entities, we recommend that section 96(2) of the Act be amended to require that charities and entities be registered with the Australia Charities and Not for Profits Commission and comply with its governance, reporting and external conduct standards.

Alternatively, section 96(2) could be repealed, and insurers required to make annual donations to such entities or charities, based on their current market share.

Other business

We do not support the random allocation of CTP insurer for policies (including re-registrations) other than new vehicle registrations. We believe that active customer choice should be promoted to drive insurer competition (see responses to discussion questions for Scenario 2 – Active decision-making).

Allocation mechanism

IAG supports an allocation mechanism based on market share. We suggest that an examination of the Auto-Allocation Scheme in South Australia be undertaken. This scheme commenced on 1 July 2019 has operated efficiently since its commencement. The scheme also provides new scheme entrants (or any insurer) whose market share is under a minimum threshold to still receive a minimum percentage of new vehicle

[8] Walsh, L. "Regulator sniffing for illegal insurance commissions" Australian Financial Review, 4 July 2019

registrations.

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

We consider that random allocation would create a more even spread of risk across all CTP insurers and increase competition by allowing an insurer's portfolio mix to be more balanced. A more balanced mix of risk reduces volatility impacts on insurers' capital position and allows for flexible pricing arrangements as insurers may not need to price at the ceiling to protect margins.

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

The introduction of random allocation would create an incentive for IAG (and other potential entrants) to assess entry to the Qld CTP scheme as it would allow for the acquisition of a portion of new vehicle business and a balanced mix of business.

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

No negative impacts have been observed in the random allocation model used in the SA CTP scheme, where IAG operates as a licenced insurer.

Any negative impacts related to lack of choice for customers purchasing new vehicle could be offset by a mechanism administered by Qld Transport, allowing motorists to change insurers within a short window after random allocation.

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

We refer to our comments above.

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

The SA CTP scheme has a random allocation model that has been reviewed and tested within a similar scheme scenario (government distribution and community rating). There is a significant opportunity to employ a similar model in the Qld CTP scheme to avoid ongoing concerns related to some insurers holding a disproportionate share of the new vehicle market.

Multiple licences

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

IAG does not support multiple licences (an insurer operating under multiple brands) in the Qld CTP scheme. While strategically used by insurers to grow market share across varying customer segments, multiple licences add unnecessary complexity and administration without providing any additional benefit, value or choice for motorists.

The introduction of multiple licences is unlikely to benefit those insurers currently operating in Australia's privately underwritten CTP schemes which trade under only one brand.

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

Different brands used by one insurer may attract varying risks where branding is aimed at different segments of the market. Given the historical pricing position of CTP insurers in the Qld CTP scheme, it seems unlikely that the introduction of multiple licences will have any significant impact on price competition. We consider that other measures, such as random allocation of new vehicle registrations and active customer choice are more likely to have a more material impact on price competition.

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?

IAG does not envisage any impact on insurers who operate (or may operate) under a single brand in the Qld CTP scheme but envisages additional complexity and administration within the scheme, as outlined above.

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

Not applicable. See response above.

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

We consider that the introduction of multiple licences would not promote insurer competition and innovation.

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

Consideration needs to be given to the additional costs to the scheme of insurers operating under multiple brands, as well as the potential for a proliferation of insurers, should all insurers elect to take up multiple licences.

The introduction of multiple licences should also be considered in conjunction with other potential scheme changes such as active customer choice. If measures are taken to promote active customer choice (for example, the presentation of CTP insurers and premiums on a registration notice), the use of multiple brands may cause customer confusion, without providing any additional benefit to customers.

Active decision-making

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

IAG supports the introduction of active decision-making of CTP insurer by motorists as it would incentivise competition and innovation within the scheme. We also consider that it would help address the low rates of switching between insurers in Qld which currently presents a barrier to potential new insurer entrants to the scheme as it limits insurers' ability to grow market share.

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

Yes. The current process of registration and renewal does not inform customers of insurer premiums. Insurer premiums are available on the MAIC website, but motorists must actively seek this information. Similarly, the process to change insurers is reliant on positive action initiated by the customer and the volume of customers who switch insurer is very low. In these circumstances, there is no incentive for insurers to offer a competitive price to motorists.

We consider that introducing the display of all insurer premiums on registration renewals and a simple insurer selection process for motorists would incentivise insurers to adopt more competitive pricing practices and would allow any new scheme entrants to grow their share if they can price competitively.

In the South Australia CTP scheme and the ACT MAI scheme, insurer premiums are displayed on registration renewals. As an illustration of the efficiency of this model in driving price competition, South Australia operates a comparable fault-based scheme with passenger vehicle rates for 12 months ranging from $294.99 to $313.31[9], compared with Qld passenger vehicle rates which sit at the regulatory ceiling level of $366.00 across all CTP insurers.

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?

The introduction of active decision-making would be a favourable consideration for any potential re-entry to the scheme by IAG.

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

IAG does not anticipate any negative impacts would arise from the introduction of active decision-making.

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

While we consider that the introduction of active decision-making would improve price competition, we

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[9] Prices for 12-month passenger vehicle CTP policy in metro area (no input tax credit entitlement) sourced from CTP Insurance Regulator CTP premium calculator on 14 April 2023 (ctp.sa.gov.au/for-vehicle-owners/ctp-premium/ctp-premium-calculator)

believe it should not be limited to price competition but include service differentiation and product innovation.

Claimant Service Rating

There is an opportunity to further support active decision-making and while driving customer service outcomes through the introduction of a Claimant Service Rating (**CSR**) as is utilised in the South Australia CTP scheme. Injured people who have made a CTP claim are asked to participate in a survey approximately three months after their claim is lodged. An overall average CSR is then derived for each insurer from these survey results.

The CSR for each insurer is provided on to motorists as part of the renewal process and is available on the CTP Insurance Regulator's website.

As a current participant in the South Australian CTP scheme, we have seen that an insurer's CSR can have a significant impact on market share. This impact has driven improvements within our claims business to ensure we remain competitive in the market.

While incentivising high levels of customer service, the CSR also assists customers:

- who may prefer to select an insurer based on factors other than price; and
- make a more informed choice in circumstances where there is little differentiation between insurers premiums and other offerings.

We have observed that the impact of the monthly CSR in South Australia can cause considerable volatility in insurer market shares. To address this concern while still supporting active decision-making through the CSR, we recommend that CSRs be updated on a quarterly basis, with a larger cohort of claimants surveyed. We anticipate that this approach would also be more cost effective than smaller surveys being conducted more frequently.

Product innovation

In addition to price and service, increased competition would motivate insurers to provide additional cover or other value offerings to customers. For example, IAG offers complimentary Driver Protection Cover (**DPC**) on select NSW CTP policies.[10] DPC provides at-fault drivers with lump sum benefits for specified serious injuries. This cover is not offered by any other CTP insurer in NSW and is indicative of IAG's commitment to be innovative and go one step further to create a strong customer value proposition in line with our purpose to help make our customers' world a safer place.

A further value offering to customers may be the inclusion of CTP policies in loyalty or multi-policy discounts. While CTP policies cannot be discounted, IAG CTP policies in NSW and the ACT count towards a customer's discount on other insurance products including motor and home policies. Insurers' ability to provide these discounts is dependent on accurate CTP customer data being received to identify multiple policies through data matching.

[10] Passenger vehicles and goods vehicles where the gross vehicle mass is less than or equal to 4.5 tonnes

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

There is a material opportunity to inform and support active decision-making to increase the volume of customers switching insurers. The current renewal process does not support active decision-making, leading to very small volumes of customers switching insurers, presenting a significant barrier to potential new insurer entrants to the scheme as there is little ability to grow market share.

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.

Transition to risk rating

To promote competition in the Qld CTP market and fairness for motorists, we suggest that consideration also be given to a transition from community rating to risk rating. Currently, pricing is only differentiated by vehicle type, policy duration and vehicle use (private or business). Rating factors based on variables such as driver age, vehicle age and demerit points would encourage and reward safer driving practices and vehicle choice and allow insurers to drive greater price competition and price closer to the technical cost of the risk, reducing cross-subsidisation across the scheme and limiting insurance affordability impacts on segments of the population.

Data provision to insurers

Data provision and data accuracy are also key to enabling insurers to both understand the portfolio mix and to data match. Data matching facilitates the application of loyalty discounts on general insurance products for customers with multiple policies and allows insurers to cross-sell between products. Fields such as date of birth, gender and title are all required to form a complete customer record.

Scenario 3

A public underwriting model

IAG does not support a transition to public underwriting in the Qld CTP scheme. In a well-regulated environment, competitive private underwriting has a number of significant advantages over public underwriting.

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

IAG does not support a transition to public underwriting for the Qld CTP scheme. IAG believes that competitive, private underwriting should be maintained within the Qld CTP scheme as it provides several significant advantages over public underwriting.

Promoting customer choice

In a privately underwritten CTP scheme, customers can choose their own insurer. This choice allows customers to directly respond to poor service, inefficient pricing and lack of product innovation.

We also refer to our responses to the discussion questions in Scenario 2 – Active decision-making.

Premium customisation

Insurers are investing in data analytics to ensure greater accuracy in premium pricing for customers. IAG is able to use its broad motor vehicle insurance experience to better understand driver behaviour and motor vehicle safety for refining risk pricing. Additionally, greater flexibility in CTP pricing would allow insurers to incentivise safe driving and fairly reward low risk drivers. However, we recognise the need to keep premiums accessible for all motorists, and we are therefore open to mechanisms that support insurers in underwriting high-risk motorists to ensure the scheme remains affordable for all motorists.

Reduced financial risk to government and taxpayers

Competitive underwriting must comply with Australian Prudential Regulation Authority (APRA) requirements. This factor, combined with the need for insurers to provide satisfactory returns for shareholders, protects against privately underwritten schemes falling into deficit. The same level of protection does not exist for publicly underwritten schemes, as they are excluded from compliance with APRA requirements under the *Commonwealth Insurance Act 1973*.

While the Qld Government might not need to hold the same amount of capital as private insurers, it would nonetheless still be exposed to the same level of risk.

Improved capital management

Substantial capital is required to underwrite CTP schemes. Although private insurers are unable to access capital as cost effectively as Government, they can diversify their insurance and asset holdings to ensure capital is used efficiently and leverage more innovative forms of finance. IAG also believes the capital required for CTP is best provided by insurers, so government funds can be more appropriately directed towards alternate essential services.

Innovation in a changing environment

Over the next decade, there will be considerable change within Australia's transport and infrastructure including the introduction of more automated vehicles to our road and a continued growth in the use of car sharing and ride sharing. These changes will impact insurance provision. A privately underwritten scheme is more adaptable because it is in insurers' best interests to recognise trends in the market and to invest in innovations to improve efficiency and develop products to maintain their competitive advantage.

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?

As IAG does not currently operate as a licenced CTP insurer in the Qld scheme, there would be no impact to IAG if the scheme were to move to a public underwriting model. However, such a move would limit any future opportunity for IAG to leverage its scale and expertise in other CTP jurisdictions for the benefit of Qld motorists.

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

See response above.

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?

As IAG does not currently operate as a licenced CTP insurer in the Qld scheme, there would be no implementation issues or risks for IAG.

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?

IAG does not hold any formed view on the extent to which there needs to be private sector service delivery.

A transition to a public underwriting model and private sector delivery to any extent would require careful consideration of the complexity and cost involved in establishing a remuneration model for insurers as well as necessary governance routines. While insurers acting as claims management providers are able to leverage scale and existing capability, any remuneration model must balance claims outcomes and fair remuneration to insurers.

A transition to a public underwriting model would also deliver considerable cost for the transitioning of underwriting and policy servicing and administration to the Qld Government.

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

IAG does not hold any formed view on claims management functions for minor claims being performed by external claims management providers.

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

IAG does not hold any formed view on the claims management functions for complex claims being performed by external claims management providers.

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

IAG does not hold any formed view on opportunities for positive incentives for good claims management outcomes in external claims management arrangements. It is noted however, that without competition, there may be less incentive for claims management providers to provide superior levels of customer service and achieve greater cost control.

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

There would be no compliance costs involved for IAG.

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?

IAG has significant experience and economies of scale that may be utilised to drive claims management, administration expenses and supply chain efficiencies to ultimately ensure efficiency and cost containment.

IAG would be interested in taking part in any discussion of this issue, with any formal view contingent on further details to be provided as well as actuarial analysis.