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

Youi Pty Ltd

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Acknowledgements

Youi thanks the Motor Accident Insurance Commission for the opportunity to provide a submission to the 2023 Review of Queensland's Compulsory Third Party (CTP) insurance scheme. Youi would welcome the opportunity to discuss our submission further with MAIC in due course.

Background

Youi Insurance is a well-established and innovative challenger brand in the Australian insurance market. Established in Australia in 2008, Youi Pty Ltd is an Australian registered general insurance company and a wholly owned subsidiary of OUTsurance Group Limited.

Youi underwrites its own products including Vehicle insurance (NSW CTP Green Slip, SA CTP, Car, Motorcycle, Caravan, and Trailer), Home insurance (Building, Contents and Landlord), and Business Liability insurance. Youi is regulated by the Australian Prudential Regulation Authority (APRA) and Australian Securities and Investment Commission (ASIC). Youi is also a member of the Insurance Council of Australia (ICA) and a signatory to the General Insurance Code of Practice.

Headquartered on the Sunshine Coast in Queensland, Youi has a presence in all major cities of Australia. Youi’s CTP management team is based in Sydney and its operations, including policy administration, pricing, and support functions, are on the Sunshine Coast in Queensland. Youi’s CTP claims function is managed by Youi’s third party claims partner, Employers Mutual Limited (EML).

Youi initially launched its CTP business in NSW on 1 December 2020. On 1 July 2022, Youi expanded its CTP offering to South Australia.

Scenario 1 - Status quo

As an insurance challenger brand, Youi believes that price competition and customer active choice are fundamental requirements for any CTP scheme. Youi would be in favour of seeing changes made to the existing privately underwritten model and as such, Youi is not in support of Scenario 1.

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

Premium Equalisation Mechanism

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

Youi supports the introduction of a premium equalisation mechanism in the QLD CTP scheme. In our view, such a mechanism would help to support a new entrant in building market share and spread risk across the scheme. Such a mechanism would help to counterbalance the scheme for those insurers that are not generating sufficient premium pool to meet the expected costs of claims. This could help to offset the incumbent insurers advantage over new entrants through market experience, established channels and relationships, and assist in ensuring a more 'level playing field'.

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

With the assurance that a premium equalisation mechanism would bring to the market through the fair redistribution of collected premiums, implementation of such a mechanism is likely to encourage increased competition and new entrant consideration into the market. This in turn may also see incumbent insurers incentivised to move away from the ceiling price currently adopted by all insurers in the QLD scheme, in order to maintain their competitive position.

2.3 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?**
- **What mechanisms would need to be established for funding deficits and returning surpluses?**
- **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?**
- **Which available rating factors should the mechanism apply across?**
- **What definitions of risk factors should be used?**
- **What rules should be implemented to govern the timing of data submissions and contributions/withdrawals from the clearing house?**

As a current licenced insurer in NSW, Youi has exposure to the NSW equivalent of the Risk Equalisation Mechanism and its processes. In our view, the mechanism works well 'behind the scenes'. Youi would be supportive of a similar arrangement in QLD, applied to the most common vehicle classes only (for example, passenger car, motorcycle, and/or potentially light good vehicles), managed through a clearing house function on a quarterly basis by an external actuarial organisation. Youi would also be supportive of additional risk differentiation models such as the inclusion of unlimited risk rating factors as seen in the NSW scheme.

If called upon, Youi would welcome the opportunity to discuss approaches to a QLD premium equalisation mechanism with the MAIC.

2.4 What, if any, impact would there be on you or your organisation (if applicable) if the government were to introduce a premium equalisation mechanism?
While there would be no impact on Youi should the government choose to introduce a premium equalisation mechanism, Youi would be supportive of its implementation.

2.5 What measures could you or your organisation adopt to offset any negative impacts?
This will depend on the premium equalisation mechanism design chosen. However, experience across other CTP jurisdictions and motor portfolios would assist.

2.6 Does this scenario carry any broader implications for insurer competition and innovation?
In Youi's opinion, scheme changes will inherently encourage incumbent insurers to innovate in order to protect market share. If scheme changes are significant enough to encourage new entrants into the market this is likely to lead to further insurer competition and innovation in order to gain or keep market share.

2.7 What material opportunities, risks or considerations, if any, do you believe need to be considered in the review of this scenario?
In Youi's view implementation of a premium equalisation mechanism, in isolation, may not be sufficient to promote price competition and encourage new entrants. Rather, Youi would suggest that the premium equalisation approach be adopted, in addition to, a number of other changes such as active customer choice and new vehicle allocation. These are further discussed below.

Random allocation

2.8 Do you support mandating a random allocation of CTP insurer in the scheme? Why or why not?
Youi supports the model adopted in South Australia CTP where new vehicles are randomly allocated to insurers based on market share. The allocation of 2% market share of new vehicles where an insurer's market share is below 2% is an additional incentive to attract new competitors into the market. The dealer channel is competitive with long standing relationships tied to a small number of well-established insurers. Insurers who do not hold those relationships have traditionally found it difficult to gain a foothold in this channel. The random allocation of new vehicles based on market share would help to negate the advantage that insurers with existing dealer channel arrangements have in place.

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

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

In Youi's opinion, implementation of a random allocation model of new vehicles would be considered a positive move as it would enable those insurers without pre-existing dealer arrangements, including new entrants, to gain access to better quality risks in the form of new vehicles which typically have better safety features.

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

While a move to a random allocation of new vehicles model would be a change for QLD motorists, giving motorists the opportunity to change their CTP insurer after a set period of time would ensure motorists still maintain ultimate choice of their CTP insurer. From the randomly allocated insurer's perspective, it would be important to engage new policy holders early and outline the benefits of remaining with them such as access to other products, incentives, and service offerings.

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

A new vehicle random allocation model will obviously impact insurers who have well established, profitable dealer channels in place. However, from a scheme perspective, this would be offset by spreading better quality risks more evenly across the market. This in turn gives insurers more opportunity to retain those customers at renewal, particularly given the lack of switching behaviour in QLD (in the absence of changes being made to promote customer choice of insurer). Importantly, a new vehicle random allocation model based on market share still means insurers will receive their market share equivalent number of new vehicles each year.

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

Youi points to the success of this model in the South Australia CTP scheme to demonstrate the benefits of implementing a new vehicle random allocation arrangement.

Multiple licences

Youi operates a single brand and does not have a view on multiple licences. Nonetheless, we believe there are better options available to improve market competition and attract new entrants to the scheme as discussed throughout this paper.

Active decision-making

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

Yes. In Youi's view, active customer choice of CTP insurer, every policy term, is a fundamental requirement of any CTP scheme. Active choice exists in all other privately underwritten CTP markets in Australia ensuring customers have the opportunity to consciously consider their CTP insurer each policy term, promoting switching behaviour.

2.21 Do you believe that the introduction of active decision-making of CTP insurer by motorists would improve price competition in the scheme?
Yes, in Youi's view implementing customer active choice of insurer each policy term is expected to be one of the single largest determinants in driving price competition across the scheme.

2.22 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?
Youi would see this as a positive impact on motorists and a positive impact for the scheme. It may also encourage new market entrants who are at a significant disadvantage with the current 'default' insurer model which limits insurer switching and would make it very difficult for a new insurer to build market share in a reasonable period of time.

2.23 What measures could you or your organisation adopt to offset any negative impacts?
While such a model would be a change for motorists who are not used to engaging with their insurer during the renewal process, this could be easily overcome by an education program and utilisation of technology to make motorist choice of insurer each policy term as simple as possible. Customers who want to retain their existing insurer can still do so by choosing them at policy renewal. In summary, the positive benefits of insurer active choice far outweigh any negative, short term impacts.

2.24 Does this scenario carry any broader implications for insurer competition and innovation?
This scenario is likely to promote more switching behaviour of insurers at renewal and encourage new market entrants. Retention rates are likely to flatten over time. In turn this should encourage price competition. Insurers, new and existing, may also need to look at more innovative ways to engage customers as they seek to retain business.

2.25 What material opportunities, risks or considerations, if any, do you believe need to be considered in the review of this scenario?
Youi has no further comments here.

Other/Combination of scenarios

2.26 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.
In summary Youi suggests the following combination of scheme design changes:

- Genuine active choice of insurer each policy term
- Random allocation of new vehicles based on market share, including a minimum market share allocation for new entrants

- Premium equalisation for the most common vehicle classes - eg, passenger cars, motorcycles, and/or light goods vehicles
- Claimant service as a differentiator in customer choice - eg, based on the SA model where claimants are surveyed during their claim with scores developed into a Claimant Service Rating (CSR). This rating/score is then displayed during the policy purchase process giving motorists an additional measure, besides price, to actively select their insurer.

Scenario 3 - A public underwriting model

Youi believes that changes to the existing privately underwritten model that promote genuine customer active choice, price competition and premium equalisation would be beneficial to encourage more competition in the scheme. As such Youi does not support Scenario 3 and moving to a public underwriting model.