SUNCORP

Discussion paper – 2023 Review of Queensland's Compulsory Third Party (CTP) insurance scheme, Motor Accident Insurance Commission

Addendum to Suncorp response - August 2023

Suncorp wishes to amend elements of its submission of 21 April 2023 due to additional information being released by MAIC and RACQ subsequent to Suncorp submitting its response to the Discussion paper.

The relevant additional information that has subsequently become available includes the *Retrospective Profit Study of Queensland CTP Premiums as at 31 December 2022* (the "Profit report") and the RACQ response to the *Discussion paper – 2023 Review of Queensland's Compulsory Third Party (CTP) insurance scheme* (the "Discussion paper").

Profitability Variance Across Insurers

The following table appears on page five of the Profit report:

Table 1.2 – Range of insurer profit margins by underwriting year

Underwriting period	Scheme margin	Highest insurer margin	Lowest insurer margin
2018	13%	26%	2%
2019	11%	29%	-6%
2020	7%	32%	-10%
2021	5%	15%	-6%
2022	9%	20%	-3%
Average 2018-2022	9%	25%	-5%
Average 2020-2022	7%	23%	-6%

This table details the large variance (30% average 2018-22) in profitability between the insurers with the highest and lowest margins. As Suncorp is neither of these insurers, this is new information for Suncorp. It adds substantially to the argument in favour of the introduction of a premium equalisation mechanism (PEM), particularly as the mechanisms available in the scheme for insurers to remediate risk mix issues are largely absent.

If this information had been available prior to the deadline for responding to the Discussion paper, Suncorp would have submitted an initial response which was more supportive of the introduction of a PEM.

RACQ Risk Profile

The graph below appears on page eight of RACQ's response to the Discussion paper:

Figure 1

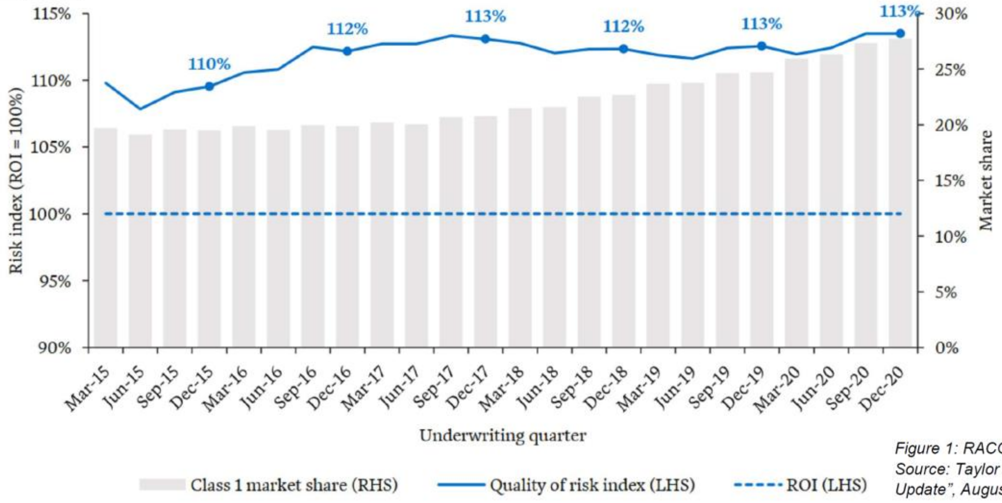

Figure 1: RACQ Class 1 risk profile trend
Source: Taylor Fry, "MAIC - RACQ Update", August 2021, page 5.

Suncorp was unaware of the degree to which the risk profile of the RACQ CTP portfolio was higher than the scheme average. This graph brings into stark focus the challenges RACQ has faced generating profit since 2016, from which time the approach to setting the price ceiling changed.[1] Furthermore, this risk profile would present challenges to robust claims management.

The introduction to the Discussion paper states, "the variance in individual insurer profitability is bringing the stability and sustainability of the scheme into question". Given Suncorp is now aware of the degree of this variance, the following adjustments to Suncorp's response are submitted.

The previously submitted text is identified in *italics*.

Scenario 2 – Scheme design changes

Premium Equalization Mechanism

The introduction of an insurer premium equalization mechanism (PEM) which accurately projects the profitability of each cohort based on risk factors within a vehicle class will add significant complexity and may be both difficult and costly to implement in the current scheme.

A PEM would not improve price competition in the scheme and may result in insurers with poorer claims management practices effectively being rewarded for poor performance at the expense of better performing insurers. It is also possible that a PEM designed to offset a single

[1] Prior to 2017, the price ceiling was set above (and the floor below) the central estimate view of scheme-wide future claims costs. Since this time, the ceiling has been set equal to the central estimate.

insurer's poor risk profile may simply transfer the issue of insufficient risk premium and consequent financial sustainability challenges to another insurer which currently has a superior risk profile.

Suncorp does not recommend implementing a PEM to rectify a point-in-time issue generated by a single insurer's failed strategy of deliberately attracting and retaining older vehicles and young drivers. An alternative approach for redistributing risk may be to allow an insurer to exit the scheme and for the failed insurer's customers to be randomly allocated to the remaining insurers.

Given the additional information detailed above, Suncorp wishes to withdraw this section of the response and replace it with the following:

While the introduction of a PEM would not improve price competition and would add complexity and incur additional cost, this is justified to maintain the stability of the scheme in the absence of other mechanisms to allow a broadly equitable risk mix or allow insurers to undertake portfolio remediation. It is important that a PEM is designed to provide long-term stability, balancing the need to allow insurers to be rewarded for superior performance whilst enabling all insurers who deliver acceptable performance to generate adequate returns.

Reallocation of an exiting insurer's portfolio

An alternative approach for redistributing risk may be for the exiting insurer's customers to be randomly allocated across the remaining insurers, based on the remaining insurers' relativity to the scheme target margin. This would need to be accompanied with changes in allocation of new vehicles and other new registrations proportionate to market share to be fully effective.

It can be concluded from Taylor Fry's profit report that two insurers have been earning high profits and have substantial within-scheme capacity to take on customers with a poorer risk profile while still maintaining target margin.

The benefit of this approach is it would solve one of the two key issues identified in section 4.2 of the discussion paper – that the high variability of insurer margin threatens the viability of the scheme.

Restoration of prudent premium setting

In pursuit of its objective of driving the scheme average profit margin to the target 7.75%, MAIC has deviated from prudent premium-setting assumptions. Suncorp's view is that the scheme is not in a steady state, with emerging experience not reliably following historic trends. The exit of RACQ leaves the scheme in a destabilised state with insurer viability susceptible to adverse claims cost outcomes.

A return to prudent pricing is urgently required. Insurers require the ability to invest to drive better outcomes for customers and the scheme, while earning an acceptable return on capital.

Reform

As stated in the initial response to the Discussion paper and other correspondence with MAIC, Suncorp's view is that further reform is required to ensure the scheme is sustainable and delivering the best possible outcomes for customers and the Queensland community.