



# **SUBMISSION BY THE NSW TAXI COUNCIL**

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## *Reforms to the NSW Compulsory Third Party Green Slip Insurance Scheme*

This submission is provided in response to the NSW Government's Issues Paper on the Reforms to the Compulsory Third Party Green Slip Insurance Scheme

*10 April 2013*

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## Contents

EXECUTIVE SUMMARY .....	2
INTRODUCTION .....	4
COMMENTS ON THE ISSUES PAPER.....	5
CTP Premiums for Taxis .....	5
Taxi Vehicle Classification .....	6
Cross Subsidisation .....	7
Licence Condition Impacts .....	8
Alignment with Transport Districts and Licence Areas .....	8
Good Driving Records and Claims History .....	9
Industry Safety Reforms.....	9

## EXECUTIVE SUMMARY

The NSW Taxi Council welcomes the opportunity to provide a submission in response to the NSW Government's Issues Paper on the Reforms to the Compulsory Third Party (CTP) Green Slip Insurance Scheme.

Like all road vehicle based industries, CTP Insurance is an important part of the NSW taxi industry's operations. It provides cover for taxi operators and owners against damage or loss to third parties arising from injuries sustained in accidents involving taxis. Over a number of years CTP insurance has however become a significant cost item for the owners of taxis which is causing financial stress and ongoing viability issues for the industry

Insurances now represent up to 8.9% of all costs for taxi operators, and is the fourth highest cost category for owners; with only driver labour, lease costs and fuel being higher<sup>1</sup>. As a consequence, the NSW Taxi Council believes that CTP insurance is disproportionately high relative to the overall cost of operating a taxi and is contributing to ongoing viability issues within the industry overall. Furthermore, CTP insurance costs are ultimately passed on to taxi customers through increases in taxi fares, which in turn has contributed to reduced affordability for passengers who use and/or rely upon taxi services.

It is also the view of the NSW Taxi Council that there is inequity in how the NSW taxi industry risk profile is assessed within the CTP insurance scheme, particularly when compared to similar forms of passenger transport, notably hire cars. Although the hire car industry operates vehicles on a twenty four hour/seven days per week basis in very similar operating conditions to that of the taxi industry, hire car CTP insurance premiums are disproportionately lower.

There are also apparent inequities in the CTP insurance scheme in the cost of premiums for taxis that are only permitted to operate on restricted time conditions. These vehicles have a reduced risk exposure yet attract the same premium cost. It is also unclear whether the CTP insurance scheme makes adequate provision for good driving and no claim records for the owners of taxis.

A further matter that is important in this context is the apparent misalignment between the categories of the CTP insurance scheme and the Transport Districts within which the NSW taxi industry operates. This is particularly relevant for Wollongong and Newcastle where taxis belonging to the same network servicing a designated licence area can have different CTP premiums based on their registration postcode.

In light of these issues, the NSW Taxi Council supports the principles of the NSW Government's reform agenda for the Compulsory Third Party (CTP) Green Slip Insurance Scheme as it is considered that these reforms will generally place downward pressure on the affordability and sustainability of the CTP insurance scheme. This would have flow on

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<sup>1</sup> IPART Taxi Cost Index Model dated July 2012

benefits for both owners and the users of taxis through reduced CTP insurance premiums for operators. These reforms will also help place downward pressure on taxi fares thereby helping to contain increases in these fares to more competitive levels.

The NSW Taxi Council, in addition to supporting the reform processes being considered by the NSW Government for Compulsory Third Party (CTP) Green Slip Insurance Scheme, also seeks a review of the CTP scheme as it relates to the NSW Taxi industry. In seeking this review, the NSW Taxi Council requests that the NSW Government give consideration to the inclusion of hire cars in the same category as taxis, given their similar operating conditions, and also explore any opportunities for further cross subsidisation of the taxi industry for CTP premiums, particularly given the important role that taxis play in the overall NSW public transport system.

It is also requested that this review consider some of the other matters raised in this submission and seek to place CTP insurance premiums on a more sustainable footing for the NSW taxi industry. The NSW Taxi Council strongly believes that should these outcomes be achieved, this will have wider benefits for the ongoing viability of this important part of the public transport system, which in turn will have direct benefits for the travelling public.

## INTRODUCTION

The NSW taxi industry is a major contributor to the State's public transport system. It provides approximately 170 million passenger journeys each year and it meets customer travel needs right across NSW. It functions as a door to door transport service that operates 24 hours a day seven days a week. The NSW taxi industry also provides services at times when other forms of public transport either significantly reduce service levels and or cease operations altogether. Taxis are often the only form of public transport for some members of the community, and they provide essential transport services to some of the most disadvantaged people in the State.

The NSW taxi industry is also a significant contributor to the State's economy, providing employment opportunities for tens of thousands of drivers and operators, network management staff as well as for other industries who rely on economic activity that the NSW taxi industry generates. The taxi industry contributes to the economic generation of the State by connecting people efficiently and effectively for business, education, tourism and essential lifestyle activities.

The NSW taxi industry is made up of a complex array of providers, ranging from the licence owner (the licence being the principal legal instrument to provide a taxi service), through to operators and drivers. A licence owner may own, operate and drive a taxi, where as some elect only to own and be the operator of the vehicle. Some licence owners have chosen to invest in a licence and then subsequently lease the licence to an operator. Authorised taxi networks are the principal means through which taxi services are coordinated. They provide direct booking services to the public and a range of safety and other services to operators and drivers.

The taxi operator, who is the owner of the actual taxi vehicle, is required to take a range of insurances in order to make the vehicle suitable to operate as a passenger vehicle under the State's transport system. This includes compulsory third party insurance which represents the most significant proportion of the taxi operator's insurance requirements.

The NSW taxi industry, being an essential component of the NSW public transport service, has been able to be established and operate as a consequence of the investment and work of many thousands of people. The largest majority of these people are best classified as small business/owner operators and drivers, part time investors and self-funded retirees.

The NSW Government does not, unlike other forms of public transport, procure taxi services from the NSW taxi industry. Whilst some financial support is provided to assist disadvantaged members of the community to access taxi services, on the whole the taxi transport system has been created and continues to operate as a consequence of the many people and organisations that have committed capital to invest in the industry. The NSW taxi industry also generates revenue for the NSW Government through the sale of licences and stamp duty on third party licence sales. It also generates other revenues through authorisation fees and indirect taxes.

## COMMENTS ON THE ISSUES PAPER

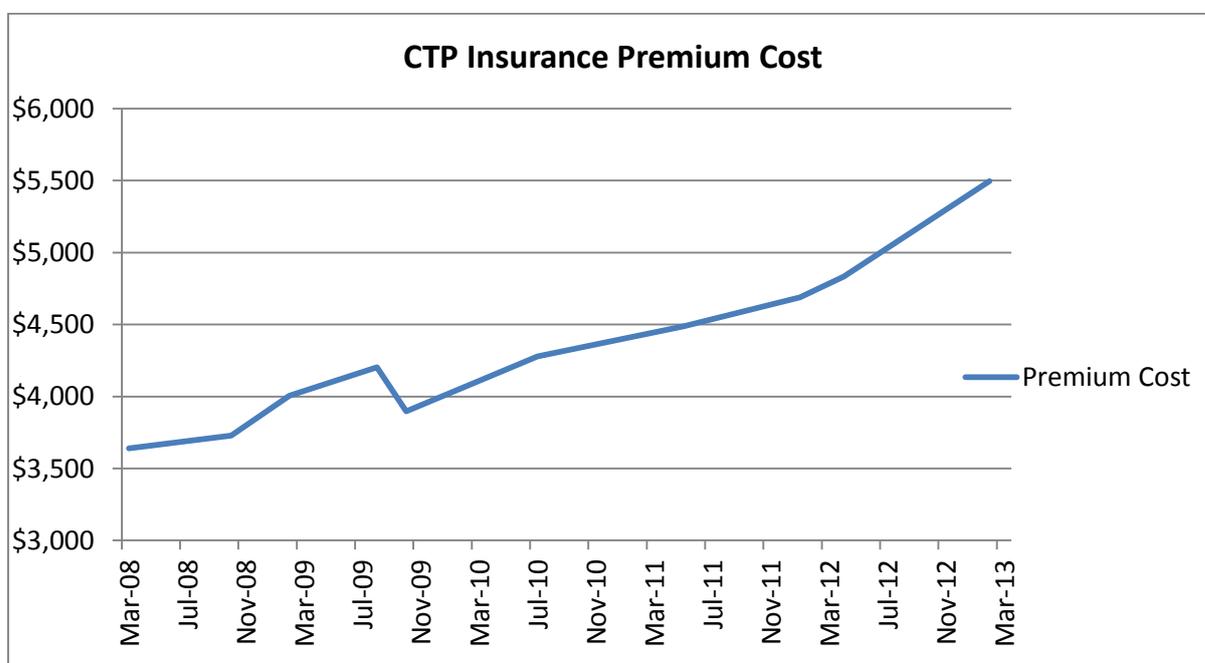
The following comments are provided in response to the NSW Government's Issues Paper on the Reforms to the Compulsory Third Party (CTP) Green Slip Insurance Scheme.

### CTP Premiums for Taxis

The cost of CTP premiums is a major issue within the NSW Taxi industry. Like other classes of vehicles in NSW, when compared on a national basis, CTP premiums are amongst the highest for taxi operators in NSW.

Over recent years, CTP insurance premiums have increased significantly for the NSW taxi industry. As highlighted in the table below, in 2008 metropolitan taxi operators were paying \$3,640 for a CTP premium. In 2013, CTP insurance premiums for metropolitan taxi operators had risen to approximately \$5,500<sup>2</sup>. The experience for outer urban, Wollongong, Newcastle and country taxi operators has been similar in relative terms to these significant upward movement in CTP prices.

The movement in prices as outlined in the table below represents an increase of over 55% across a five year period and if this trend continues, it will become unsustainable for the taxi industry in the long run.



<sup>2</sup> These insurance premium costs represent the best available premium price at the time of purchase

The NSW Motor Accidents Authority (MAA) has provided data which suggests that taxi CTP price increases have not been greater than that for general motor vehicle increases. As outlined above, this is not the experience of the NSW taxi industry. The MAA and other policymakers use average price as a measure. In the taxi industry, the quantum of Green slip prices is so high, (currently greater than \$5000) and knowledge of prices so well shared, that the only relevant price is the lowest price. This has risen far more quickly than the average. For a taxi operator a price difference of a few percent represents hundreds of dollars. With standardised policies, the cheapest is bought

The increase in the cost of CTP insurance premiums for the NSW taxi industry is also placing upward pressure on taxi fares which is having negative flow on effects for the consumer. This is also contributing to a perception amongst some stakeholders that the NSW taxi industry is becoming uncompetitive<sup>3</sup>. Whilst the NSW Taxi Council strongly contends that this perception is not correct, the upward pressure on taxi fares arising from, amongst other matters, the costs of CTP insurance premiums does not assist in this regard.

The NSW Taxi Council therefore supports the NSW Government's proposed reforms to the CTP Green Slip Insurance Scheme on the principle that these reforms will place downward pressure on the costs of CTP insurance premiums and will improve the efficiency of the scheme overall. This will have direct benefits for the NSW taxi industry which will contribute to the long term viability and sustainability of the industry, particularly for taxi operators.

Furthermore, as outlined above, the successful implementation of these proposed reforms will have flow-on benefits to taxi passengers as it will also help place downward pressure on taxi fare increases into the future.

## **Taxi Vehicle Classification**

The NSW Taxi Council requests that the NSW Government, as part of its review of the CTP insurance scheme, give consideration to the reclassification of taxi vehicles within the CTP scheme. It is considered that the taxi industry, currently in Class 7 of the CTP scheme, should be combined with Hire Car (Class 8). Whilst it is noted that the principal difference between the two industries is that a hire car cannot "stand in the street for hire"<sup>4</sup>, the operating environments of the two industries are largely consistent.

Hire car CTP premium costs are currently closely weighted to Class 1 (Motor Car)<sup>5</sup> however their operating conditions are not dissimilar to that of the NSW taxi industry, which are weighted substantially higher. Hire cars are available for hire on a twenty four hour, seven days per week basis. They provide point to point transport and are exposed to the same operating environment and risks on the road as taxis. It is

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<sup>3</sup> IPART Review of Taxi Fares 2013, Issues paper dated February 2013

<sup>4</sup> Motor Accidents Authority Schedule of Premium Relativities, 1 February 2013

<sup>5</sup> *ibid*

considered that, from an insurance risk perspective, the differences are not that significant that they warrant separate classes under the CTP insurance scheme, and certainly not the extraordinary difference in weighting that currently exists between the two industries.

The differences in the costs of hire car premiums when compared to taxis are significant. The weightings for hire cars are significantly lower, however in the actuarial report prepared for the Motor Accidents Authority (MAA) it is noted that the hire car industry's observed relativities "should be viewed with caution" due to the insufficient number of hire car vehicles as a specific class<sup>6</sup>. It is the view of the NSW Taxi Council that this highlights the need for these vehicles to be assessed in the same Class as taxis to provide greater reliability in the assessment of the risk exposure and thereby reduce the inequities between the two industries in this regard.

The NSW Taxi Council also strongly holds that emerging vehicle types and uses should be placed into appropriate classes, whether this be by Roads & Maritime Services (RMS) or MAA. Examples are Car Share services currently being promoted by local government among others. E.g. GoGet, FlexiCar, Geen Car share etc. In practical terms the NSW Taxi Council argues these types of vehicles should be rated closer to Self-Drive services, but are currently rated with business use motor vehicles and the cross subsidy affects any sense of competitive neutrality. The NSW taxi industry competes with these services, but it is placed in its own class.

## Cross Subsidisation

The NSW Taxi Council requests that the NSW Government also give consideration to a level of cross subsidisation of the taxi fleet by other vehicle classes. As outlined in the Introduction to this Submission, the NSW taxi industry provides essential public transport services to the people of NSW. The taxi industry provides a high level of service and is often the only form of public transport available to members of the community, particularly when other modes of transport cease operation and/or significantly reduce service levels. In addition, the taxi industry provides essential transport services to some of the most disadvantaged members of the community, notably to the seriously disabled.

It is therefore considered to be in the public interest for the taxi industry to be more sustainable in the longer term. A level of cross subsidisation within the CTP insurance scheme would provide a level of assistance in this regard, particularly when the external benefits of the taxi industry are considered.

Furthermore, as the NSW taxi industry is funded by the private sector and does not receive any subsidies from the Government, there is no capacity for the industry to recoup costs other than through the fare box. This therefore places a significant burden on the ongoing viability and sustainability of the taxi industry on the passenger. Indirect support through reasonable cross subsidisation within the CTP insurance scheme for

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<sup>6</sup> Finity Consulting Pty Ltd, CTP Insurance Review of Premium Relativities from 1 January 2013

the taxi industry should therefore be considered as a genuine and appropriate means of providing assistance to the NSW taxi industry as part of the CTP review process. This is considered relevant when other aspects of cross subsidisation within the CTP scheme, eg motorcycles, are assessed in this regard.

### **Licence Condition Impacts**

The NSW Taxi Council requests that as part of the CTP review process, consideration be given to including the licence conditions within the assessment of the risk relativities of the NSW taxi industry, particularly where those licence conditions restrict the time that a taxi is on the road. There are a number of taxis which spend less time on the road than standard taxis due to the constraints contained within the relevant licence conditions. These include taxis that are restricted by time (eg peak availability licences) or standby taxis which are only used on specific occasions. By virtue of their restricted use, the risk profile is proportionately less than that of a standard taxi.

Owners of these vehicles are however still required to pay the full premium for CTP insurance for an unrestricted taxi and no allowance is made within the CTP insurance scheme for any restrictions that the taxi licence may place upon the operation of the vehicle. This places the taxi operators of these vehicles in a position of disadvantage when compared to those who operate standard taxis, which impacts upon their viability. It is therefore considered that this should be reviewed as part of this reform process.

Any review in this regard should however be carried out on a principle of no disadvantage so that existing taxi operators of standard taxis are not negatively impacted by any possible changes, thereby undermining the potential benefits of the reforms.

### **Alignment with Transport Districts and Licence Areas**

There is an apparent misalignment between the classification process under the CTP insurance scheme and the Transport Districts/licenced areas that the NSW taxi industry operates within. This is most notable in the Wollongong and Newcastle Transport Districts.

In these areas, it is possible for owners of the taxis to be servicing the same Transport District/licence area but have substantially differing insurance premiums under the CTP scheme. This creates an inequity within these districts where taxis are required to provide a service throughout the entire Transport District/licenced area, but differing CTP insurance premiums can apply based on the postcode within the Transport District where the taxi operator registers their vehicle.

It is therefore considered that, as part of the reform process, this misalignment should be reviewed to see if these anomalies can be addressed. Any review in this regard would also need to be carried out on a principle of no disadvantage so existing taxi

operators are not negatively impacted by any possible changes, thereby undermining the potential benefits of the reforms.

## **Good Driving Records and Claims History**

NSW taxi drivers are professional drivers. They undertake over eight weeks of driver and customer based training and are subject to stringent regulations relating to both driver safety and passenger amenity. Taxi drivers proportionately spend more time on NSW roads than most other drivers in the State. On the whole it is considered they have, relative to risk, a good driving record.

Records obtained over the last twelve months indicate that of the approximate 26,000 authorised drivers in NSW, suspension and/or cancellation due to poor driving accounts for less than 1% of total drivers. At an estimated average of more than 60 hours per week per driver this is considered to be a significant outcome.

As part of a review of the CTP insurance scheme, it is requested that the extent of the positive impacts of good driving that lead to positive claim records be assessed.

## **Industry Safety Reforms**

Recently the NSW Taxi industry has undergone a number of reforms designed at improving vehicle and driver/passenger safety. This includes the introduction of compulsory wearing of seat belts by drivers, the introduction of improved camera standards and the compulsory use of airbags. These have potential flow on benefits to the safe operation of taxis which in turn will reduce the risk exposure of the industry in the context CTP insurance scheme.

The NSW taxi industry has also embarked on education in relation to pedestrian accidents and following the introduction of seat belt legislation for taxi drivers a new focus on passenger seat belts and safety should also contribute to a reduction in claims.

The NSW Taxi Council requests that these initiatives be taken into consideration as part of the overall review of the CTP insurance scheme.

In this regard, the NSW Taxi Council is also willing to work with the MAA to gain a better understanding of how industry based safety initiatives, including further training of driver, safety systems and other relevant initiatives can contribute to downward pressure being placed on CTP insurance premiums for the NSW taxi industry.