Stakeholder engagement

Reforming insurer profit in the NSW CTP Scheme 2016

25th November 2016

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MOTORCYCLE COUNCIL
OF NEW SOUTH WALES
INCORPORATED

Motorcycle Council of NSW
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Burns/Stanford et al

About the MCC of NSW

The Motorcycle Council of NSW Inc. (MCC of NSW) is an internationally recognised umbrella group for motorcycle clubs, associations and ride groups, in the state of New South Wales, Commonwealth of Australia.

Established in 1982, the MCC of NSW is recognised as the peak motorcycle representative body in NSW and Subject Matter Experts on many complex issues dealing with motorcycling including crash data and statistics, traffic data and congestion information.

The MCC of NSW has published documentation that has been referenced worldwide by overseas motorcycling and traffic bodies and has produced video training films that have been utilized and referred to by many overseas trainers, researchers and ride associations.

The MCC of NSW has appeared before several standing commission of inquiries in NSW including the Standing Committee on Law and Justice and is often consulted on all things motorcycling by the Roads and Maritime Services (RMS), Transport for NSW and Centre for Road Safety.

NSW is the peak representative body for motorcycling in the state of NSW. The MCC of NSW represents over 50 clubs, with more than 41,000 riders.

We wish to thank SIRA for the opportunity to present this submission and the views of our member clubs on the subject to provide feedback on the important issue of **Insurer profit with in the NSW CTP Scheme**

Should you require further information on the information contained within this submission please feel free to contact the undersigned.

Yours sincerely,

[redacted]

Christopher Burns

Chairman

MCC of NSW

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Introduction

As part of the critical analysis of changing the current NSW CTP Scheme SIRA have given the Motorcycle Council of NSW the opportunity to provide its views on insurer profit.

We are happy to provide our responses below

Reforming insurer profit in the NSW CTP scheme

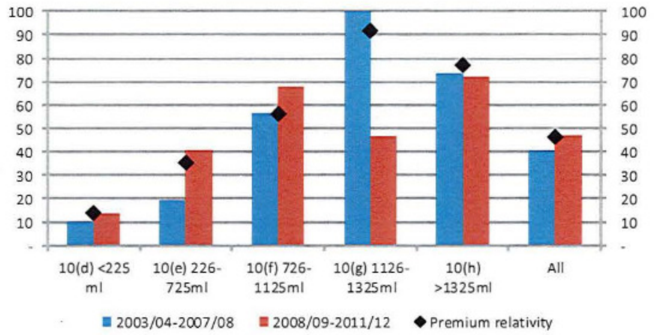
Q1 What concerns or risks do you see with the proposed actions to reform the premium system?

- The proposals do not seem to address some of the base issues of failure in reporting profit margins on smaller classes and failure to adequately scrutinise the currently available data
- According to data supplied by the MAA/SIRA to the MCC which can be found at this link; https://www.parliament.nsw.gov.au/committees/DBAssets/InquiryOther/Transcript/10078/Answers%20to%20questions%20on%20notice%20-%20State%20Insurance%20Regulatory%20Authority.pdf
    - Data set provided by MAA/SIRA to the MCC on two occasions, pages 206 -214 of the link above highlights a number of items
    - Claimed exposure of motorcycles does not match registration figures for the state (Source RMS) and exceeds the maximum number of registrations in NSW in one instance by 11,000 motorcycles in FY2011
    - The data provided shows that claims against motorcycle CTP policies on a claims/ 10,000 registration level are one quarter of the number of claims made against motor car policies.
    - These discrepancies won't be addressed if the granularity of claims data is not scrutinised correctly

- Extract from E&Y Letter to Andrew Nicholls referring to volatility (Source L&J Inquiry)
    - ► Consequently the greater the historical volatility in claims experience, the wider the range within which premiums can be considered to be reasonable. This creates difficulties for SIRA in assessing insurer premium filings given the historical volatility in the NSW CTP claims experience (which is well illustrated currently with claim numbers having increased significantly over the last few years)
    - The MCC has been advised on numerous occasions of the volatile nature of the classification structure for motorcycles and as noted above this creates uncertainty in pricing risk and consequential increase in premium filings as demonstrated in the graph below in the 10g category which was kindly provided by MAA/SIRA.
    - Whilst the MCC of NSW have raised the issue of volatility a number of times as a driver for higher premium prices nothing has been done to rectify the situation

- There needs to be an ability to adjust relativities more quickly. For instance Class 10g have been paying too much and this was first raised by the MAA (SIRA) in a presentation to the MCC in 2013 and the adjustments have been ineffective, detail to be found on Page 175 of the link below the following graphic

Recent Motorcycle CTP experience



	Number of vehicles
10(d) <225 ml	32,000
10(e) 226-725ml	77,000
10(f) 726-1125ml	45,000
10(g) 1126-1325ml	15,000
10(h) >1325ml	23,000

- Experience is volatile by Motorcycle category; most recent experience suggests 10(f) subsidised by 10(g) but further analysis required

https://www.parliament.nsw.gov.au/committees/DBAssets/InquiryOther/Transcript/10078/Answers%20to%20questions%20on%20notice%20-%20State%20Insurance%20Regulatory%20Authority.pdf

- Data set on page 187 of link above shows number of motorcycle CTP policies according to the MAA/SIRA.

Motorcycle Premiums collected[i]

Year ending	No of policies	Total premium collected[ii]	Average premium[iii]
June 2007	139,478	$44,479,295	$319
June 2008	155,689	$49,316,452	$317
June 2009	167,724	$56,406,903	$336
June 2010	178,503	$62,180,811	$348

[i] Includes privately registered motorcycles only
[ii] Includes levy and GST
[iii] Includes levy and GST

The policy numbers from MAA/SIRA are wildly different from the RMS data for registered motorcycles in NSW

a. 2007 is RMS 133,555 SIRA 138,478 + 5,000 difference
b. 2008 is RMS 146,631 SIRA 155,689 + 9,000 difference
c. 2009 is RMS 163,076 SIRA 167,724 + 4,600 difference
d. 2010 is RMS 172,691 SIRA 178,503 + 6,000 difference

(Source RMS; http://www.rms.nsw.gov.au/cgi-bin/index.cgi?fuseaction=statstables.show&cat=Registration)

- A 5,000 unit discrepancy is difficult to explain away as there are not that many bikes in NSW, this also effects the average premium prices

- If SIRA cannot check the basic data on some of the smaller policy cohorts how are they expected to manage the entire scheme?

    - Better data sets are one thing, using them effectively is an entirely different kettle of fish

- The Insurance Council of Australia (ICA) have publicly advised on two occasions that there is no guarantee of premium reductions from the proposed reforms.

- The US experience shows that "No Fault" schemes are running 25% more expensive premiums than states running "At Fault" schemes http://mail.consumerwatchdog.org/insurance/fs/fs000218.php3

- The US experience also shows that "No Fault" schemes are adversarial in nature due to perceived fraud and most states are now rolling back to At Fault schemes

Q2; What are your views on the proposed approach to profit normalisation?

- A number of initiatives have been implemented in a bid to normalise profits and they have been moderately effective as the profit margins have come down over the past couple of years. One can only assume that better management and use of critical data will be enough
- The proposal by the Australian Lawyers Alliance to limit legal fees on claims below $50,000 is sure to put and end to small claims harvesting and baby claims
- Normalisation does not mean any improvement in efficiency. It means that all insurers will extract about the same profitability, with the variations normally distributed about an average.
- Risk pooling means pooling all risks, not just classes of risk. Profit normalisation is not a tool for dividing the community, but for sharing the risk across the community and insurers must recognise this

Christopher Burns
Chairman MCC of NSW

Q3; Should the definition of appropriate insurer profit levels be set by SIRA, and if so what considerations should be included?

- Yes the definitions should be set by SIRA
- Items to be considered should include;
    - Market interest rates
    - What is best for the consumer
    - Scheme performance with the wellbeing of the injured as a Key Performance Indicator
- The target should be in terms of overall efficiency, from which profits may flow and this includes administration costs, which presently appear to be able to charged to the consumer without restraint.

Q4; Which mechanism (s) do you believe are best to redistribute premium super profits back to motorists? Why?

- Averaging across a series of years to assess the ACTUAL community risk across that period – NOT the claims experience of the individual insurer in a single year
- A multi-year clawback system will ensure profits are returned to motorists
    - The funds can be pulled back well after the events
- Implement a pool for storing the super profits and use that to offset future CTP Premiums after the events
- Risk Equalisation Mechanism as outlined in the paper

Q5; If insurers make a loss should they be compensated in a profit normalisation framework? How?

- Averaging across a series of years to assess the ACTUAL community risk across that period – NOT the claims experience of the individual insurer should see profits steady
- Distribute the funds from the Super Profits pool in order to make up for losses

Q6; Should a tolerance level be (eg x%) above or below the targeted profit be considered? If so what would be an acceptable tolerance level?

- Yes, +/- 2% but always within the limits od prudent management of the super-profits pool

Q7; What should be done for the insurer that who adopts innovation, operates efficiently and makes extra profit as a result of endeavours?

- Implement a fixed “Cost to operate” allowance as a percentage of turnover instead of the current system of unaudited costs claimed by the insurer
- Increased efficiencies can then be achieved with the base cost of the system staying the same and making the system more efficient
- Decentralising the operations and moving to regional areas would lower costs and increase employment in country regions

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Chairman MCC of NSW

Q8; What advantages/disadvantages do you see in annual reporting on individual insurer profit by SIRA?

- It would keep the insurers honest and enable timely trend tracking
- No disadvantages to be seen

Q9: What advantages/disadvantages do you see in increased transparency in the premium setting process, including making SIRA an approval authority?

- More transparency makes for more accountability
- Making SIRA an approval authority might bring more rigour to the scheme along the lines of the Qld scheme where CTP premiums are lower and more tightly controlled
- Enormous advantage, it would illustrate the use of individual risk profile separate from overall population risk

Q10: Should there be exclusions, caps, limits or controls on acquisition expenses, including commissions to intermediaries?

- A preferable alternative is to establish the overall population risk and have CTP premiums collected with vehicle registration fees and to then distribute the policies across the pool of private insurers.
    - In this way there are zero acquisition expenses, other than perhaps, an administrative charge by the RMS
    - It seems to work just fine in Qld
- There should be no caps or exclusions on resellers as they seem to be able to acquire business at a lower rate than the main insurers and also to contain those costs within their brokerage fees
- Caps on resellers also affect fleet rates available to some groups. Fleet rates obviously reduce the acquisition costs as they are selling bulk premiums
- Otherwise, yes there should be caps limits and controls on acquisition expenses as the insurers should be running as tight a scheme as possible to provide a mandatory insurance

Should you have any further queries we would be happy to oblige with our responses.

<u>End of Document</u>

Christopher Burns
Chairman MCC of NSW