25 November 2016

Mr Anthony Lean
Chief Executive
State Insurance Regulatory Authority
SYDNEY NSW 2000

By email: ctp_review@sira.nsw.gov.au

RE: REFORMING INSURER PROFIT IN COMPULSORY THIRD PARTY (CTP) MOTOR VEHICLE INSURANCE – DISCUSSION PAPER

Executive Summary

Suncorp welcomes the opportunity to comment on SIRA's proposals relating to insurer profit in the NSW CTP scheme.

In this submission we provide a response to the proposals put forward by SIRA. We acknowledge that addressing the policies and processes around premium setting is important to the health of the scheme however we urge SIRA and the Government to also focus on benefit reform.

Suncorp believes motorists in NSW will be better served through the following policy settings:

- Defined benefits;
- No-fault;
- First party;
- Reduced Common Law; and
- Competitive underwriting.

The current level of uncertainty in the scheme, which manifests itself in higher than expected profits, is correlated with the benefit design and the dependence on common law proceedings. As we have outlined previously, in multiple submissions, the largest savings to the scheme can be achieved by moving to defined benefits and a reduced reliance on common law proceedings. True scheme reform should address premium processes, claims practices and most importantly benefit design. We believe that strong competition can also have an important impact on regulating insurer profitability. This is why we support first party arrangements which encourage customers to choose who will look after them in the event of being injured.

Addressing all these aspects of scheme reform with a focus on the outcome of increasing scheme efficiency (the amount of premium dollar being given to the injured party), will go a long way to ensuring certainty around insurer profits as well as driving better health outcomes.

About Suncorp

Suncorp Group Limited, and its related bodies corporate and subsidiaries (collectively 'Suncorp'), offers a range of financial products and services including banking (Suncorp Bank), general insurance, compulsory third party (CTP) insurance, workers compensation insurance, life insurance and superannuation across Australia and New Zealand.

Suncorp has around 14,000 employees and relationships with over nine million customers.

Suncorp provides a wide range of insurance products to small and medium sized businesses as well as to corporate customers. These products are distributed nationally, both directly and indirectly, through intermediaries.

Suncorp provides workers compensation insurance in Western Australia, the Northern Territory, the Australian Capital Territory and Tasmania, and operates in the managed fund scheme in New South Wales.

CTP insurance is provided in New South Wales, the Australian Capital Territory, Queensland and South Australia.

Within the NSW CTP scheme, Suncorp operates under the GIO and AAMI brands.

Suncorp has consistently taken a leadership role within the industry to advocate necessary reform to statutory schemes. We have published a number of white papers on the issues of competitive underwriting, scheme design and no-fault lifetime care. As Australia's largest private personal injury insurer, we take this role seriously and will continue to support reform that improves the lives of our customers.

Regulatory and Administrative Actions being taken by SIRA

Risk Equalisation Mechanism (REM)

Suncorp has been working with SIRA and the ICA to implement the proposed REM by May 2017. We agree the REM is need to maintain affordability across different segments. As stated in the Discussion Paper, the objective of the REM is to deal with the mismatches between community requirements on pricing and insurers' requirements. It is designed to reduce the risk of anti-selection, rather than to eliminate the risk of anti-selection. We urge SIRA to focus on this objective and keep the REM as simple as possible.

Commercial Vehicle Rating Changes

Suncorp agrees that greater flexibility in the commercial segment would be beneficial. Flexibility in this segment would promote innovation and the take-up of technologies such as telematics to reduce risk and premiums.

Mechanisms Proposed by SIRA

Increased Disclosure on Profit

Suncorp does not believe another layer of disclosure in the form of individual insurer profit results is necessary or beneficial to consumers. SIRA already has multiple indicators to track the health of the scheme, including efficiency measures which clearly shows how much premium goes to insurer profits, legal fees and claimants' benefits. Furthermore, insurers constantly disclose their financial results through financial regulators such as APRA and also through annual reports and analysts' reports. Public disclosure of estimated CTP profits for each individual insurer could lead to a range of interpretations by analysts with the potential for unintended market impacts for the listed insurers.

A better approach would be to set clear loss-ratio targets for the scheme to achieve, this would place the onus on all stakeholders to ensure costs are contained. We believe the key to transparency and the success of a statutory scheme is scheme efficiency – the amount of each premium dollar going to the injured person.

Finally, it does not appear balanced to individually report on insurers' profits without similar scrutiny of other scheme participants. For example would the same expectation be placed on medical and legal participants? Would an individual legal firm have to disclose profit relating to their involvement in the NSW CTP scheme? What level of surplus should SIRA achieve? An aggregate picture of all scheme participants would be more balanced.

Profit Normalisation

Fundamentally we do not believe a profit normalisation mechanism is necessary if the scheme settings are right, specifically claimants' benefits and appropriate access to Common Law. Suncorp has long argued that the introduction of defined benefits for minor injuries will reduce the volatility in the scheme and produce more predictable profit outcomes.

However, appreciating the Government's intention to implement this mechanism, we would argue that it should only be used as a transition measure used to address unintended variance in scheme outcomes. In terms of the detail of the proposal, Suncorp has significant concerns with some of the proposed elements. If profit is to be measured on an industry level and then normalised, there is the real risk of pushing insurers out of the scheme who had a poor result compared to the rest of the industry. In terms of timing it is paramount that the assessment not occur too early. As SIRA would be aware serious Common Law claims can take years to resolve and the cost (and final payout) can be substantial. Any public assessment which is conducted too early could be misleading.

We also believe that there must be an acceptable range around the projected profit margin that allows for normal variations in a long tail scheme, as well as incentive for innovation that produces both better health and cost outcomes.

On the matter of a two-sided versus one-sided test, Suncorp would prefer a one-sided test if the mechanism is to be temporary. It is important to maintain the competitive tension within the scheme so that insurers can innovate and compete on service and price. Implementing a permanent two-sided test will also dull the incentive for the Regulator to reform the scheme if it becomes unbalanced. In addition there could be the perverse incentive of claims managers not addressing inefficiencies due to the normalisation of profit.

The discussion around how excess profits or losses are managed raises an important point, which is the significant administrative burden that will be placed on SIRA to reallocate funds. Under all scenarios proposed each would require substantial administrative support, particularly with direct refunds to motorists. It highlights the extra cost associated with attempting to fix the issue of profit after the fact, instead of focussing on the fundamental problem which is scheme efficiency, volatility and benefit design.

Abolition of the Fully Funded Test

Suncorp agrees with SIRA that given stringent controls from APRA that a separate Fully Funded Test for the purposes of NSW CTP is not necessary.

Premium Review Process

Generally we do not dispute the need for more openness around the premium setting process. However shifting to a scheme that allows SIRA to approve premium filings could open the scheme to political interference. SIRA should maintain regulatory oversight but allow insurers to compete on service and price.

Assumption Guidelines

Suncorp agrees that guidelines from SIRA would help achieve consistency around assumptions.

Conclusion

Suncorp welcomes this review but urges SIRA and the Government to focus on the underlying structural health of the scheme.

Reforming the scheme through the implementation of defined benefits, no-fault cover and first party arrangements will result in more certainty and in turn more stable profit outcomes.

Motorists deserve a scheme that is affordable, provides full cover and incentivises injured people to recover quickly, we believe these policy settings will achieve these aims.

Should you wish to discuss any of the points raised in this submission, please contact Jonathan Davies, Manager, Public Policy on [redacted] or [redacted].

Yours faithfully

[redacted]

Matthew Kayrooz
Head of Accident and Trauma Insurance Australia

ATTACHMENT A: Suncorp White Paper – *Chronic Condition*