

New Point to Point CTP Arrangements - Options Paper

December 2019

[This page is intentionally blank]

Contents

Executive Summary	4
1. Introduction	5
2. Recent Stakeholder Engagement and Outcomes	5
2018 Horizon Scanning Workshop	5
November 2018 Issues Paper	6
SIRA's Response	7
3. Options for New Arrangements	9
Option 1 – Point to Point Driver Policy	9
Option 2 – Service Provider CTP	13
Option 3 – Usage-Based Arrangements	16
Option 4 – Mandatory Risk Rating Factors	19
Option 5 – New Vehicle Class	22
4. Ongoing Consultation and Submission Requirements	25
What to Address in Submissions	25
5. Key Concepts and Definitions	26
Bonus malus	26
Booked service	26
Booking Service Provider	26
Fare	26
Hire vehicle	26
Insurer	26
Passenger service	26
Passenger service provider	26
Passenger service vehicle	26
Point to Point Compulsory Third Party (CTP) arrangements (arrangements)	26
Premium relativities	26
Premium funding	27
Private hire car	27
Taxi service provider	27
Transitional arrangements	27
Usage-based	27
Vehicle class	27

Executive Summary

The State Insurance Regulatory Authority (SIRA) is seeking comment on five options for new Compulsory Third Party (CTP) arrangements for the point to point industry once the current transitional arrangements expire on 1 December 2020.

The new arrangements are important because it provides an opportunity to create an environment that fosters lower premiums, improved safety and greater flexibility to respond to future changes in the Point to Point industry.

Stakeholder feedback from the September 2018 Point to Point Horizon Scanning Workshop and an Issues Paper in November 2018 have informed the options. Special consideration has been given to prescription level, data & evidence, improved safety and premium outcomes, future-proofing and flexibility.

Option	Key Points
<p>1. Point to Point Driver Policy: CTP policy that is attached to passenger service drivers</p>	<ul style="list-style-type: none"> • Taxis and Private Hire Cars would transition into Class 1. • CTP premiums will be the same as other vehicles in that class for the vehicle. • Drivers would need to take out an additional CTP policy to cover the risk of conducting passenger services.
<p>2. Service Provider CTP: CTP policy that is attached to Authorised Service Providers.</p>	<ul style="list-style-type: none"> • Taxis and Private Hire Cars would transition into Class 1. • CTP premiums would be the same as other vehicles in that class for the vehicle. • Service Providers would take out an additional CTP policy based on the number of vehicles conducting passenger services over an annual period.
<p>3. Usage-Based Arrangements: Premium setting arrangements that are based on distance.</p>	<ul style="list-style-type: none"> • No change to arrangements requiring eligible Authorised Service Providers pay fare-paying kilometres. • The base premium for Passenger Service Vehicles would be set equivalent to a Class 1 premium. • Usage-based premiums would apply to Passenger Service Vehicles driving for Booking Service Providers which meet the minimum distance criteria. • Private Hire Cars would remain in vehicle Class 8.
<p>4. Industry agreed risk rating factors: SIRA identifies a set of risk rating factors in consultation with industry.</p>	<ul style="list-style-type: none"> • SIRA in consultation with industry would identify risk-rating factors for conducting passenger services, focussing on creating safer driving behaviour. • On a case by case basis insurers can choose the mechanism for determining whether vehicles are performing passenger services, using data obtained from booking service providers or through vehicle operator declarations.
<p>5. New vehicle class: For all Passenger Service Vehicles.</p>	<ul style="list-style-type: none"> • All Passenger Service Vehicles would transition into a new vehicle class. • Vehicles within the new Class would be identified using an RMS usage code. • Insurers would identify relevant risk rating factors within the new Class that reflects the risk of conducting a passenger service.

1. Introduction

On 1 December 2020, the current compulsory third party (CTP) transitional arrangements for the point to point industry under the *Motor Accident Injuries Act 2017* (the Act) will expire. Transitional arrangements require 'similar' premiums between taxis and comparable hire vehicle operators for the fare paying component. In practical terms, these arrangements mainly adjust CTP insurance costs to reflect the distance that a point to point vehicle spends on providing passenger services.

The development of these new arrangements will, where possible, utilise data collected during the transitional period to substantiate the factors that can be used to determine premiums for the point to point industry.

The new arrangements will also be an opportunity to create an environment that is customer centric focused. SIRA will engage with stakeholders in a collaborative manner to deliver better outcomes for the industry and point to point customers in NSW.

On this basis, the new arrangements will focus on an evidence-based approach to reflect risk, balanced with the need to be reasonable, fair and affordable. Evidence-based means leveraging information from modern business environments responding to an on-demand consumer culture. There are increasing opportunities for more innovative ways to inform existing rating factors - or develop new ones - with direct evidence derived from actual experiences rather than broad industry analysis.

The arrangements will also provide flexibility for SIRA to respond and adapt to new developments or disruptions (for e.g. freight and food delivery service providers).

SIRA considers that targeted rating factors for the point to point industry which are linked to safer driving behaviours will lead to better and fairer CTP premium outcomes.

Most Australian states and territories separate rideshare and taxis into different vehicle classes in their respective CTP schemes, with different pricing arrangements. However, Victoria is the only exception where there is only one class of vehicle (Commercial Passenger Vehicle) with insurance calculated through community risk rated factors.

Recently, South Australia have introduced a new premium class for rideshare vehicles and this reflects the different approaches the jurisdictions are taking in response to rideshare vehicles being in the point to point industry.

SIRA notes that there are multiple possible solutions that should be explored when it comes to the new CTP arrangements for the point to point industry.

2. Recent Stakeholder Engagement and Outcomes

CTP insurance is an important safety net, protecting people who are injured on the roads of NSW and protecting drivers/vehicle owners from personal liability from the cost of that care. Premiums can have an impact on business operating costs and are a useful tool to drive safer behaviour.

The options contained in this paper have been prepared around regulatory considerations as well as past and more recent stakeholder engagements.

2018 Horizon Scanning Workshop

SIRA conducted a Horizon Scanning Workshop on 18 September 2018 to gain a better understanding of future issues and challenges for the industry. Discussions at the workshop made it clear that there are

Draft

many forces which will continuously impact the industry including government regulation, infrastructure planning, change driven by evolving technology and new market entrants.

The workshop also provided an opportunity to canvass ideas around what a modern CTP scheme for passenger services should look like. Workshop participants agreed that future arrangements should be fair, flexible and future proof: fair meaning that premiums are risk-based and one industry segment is not advantaged over another; flexible in that new arrangements should not stifle innovation in terms of start-ups and allowing industry to respond to regulatory requirements; and future proof in that CTP arrangements are adaptable and remain relevant for the long-term.

Participants also agreed that while new arrangements should be contained to passenger services, as part of the development process, consideration is given to possible gaps between the Workers Compensation Scheme and the NSW CTP Scheme.

There were some cautionary discussions about a purely risk-based scheme. Risk-based schemes could become complex in terms of data capture requirements, multiple risk-rating factors, premium calculations and compliance. Complexity could also exacerbate capital, operating and technology costs. Road user privacy issues could arise with the need to collect data to support evidence-based risk factors. Also, any highly prescriptive requirements could adversely affect the levers of competition, differentiation and the pricing of risk. Further, participants discussed whether the role of the regulator should be to set broad principles and let the market price risk efficiently.

Workshop participants proposed that the following principles guide the design of new point to point CTP arrangements:

- Affordability and sustainability
- Simplicity
- Promotes competition amongst insurers
- Promotes road safety
- Competitive neutrality
- Evidence-based
- Privacy
- Future proofed
- Fair pricing of risk

The workshop also proposed eight rating factors which might be relevant to a modern risk-based scheme:

Distance: A basic measure of exposure. Can affect drivers disproportionately.	Driver: The skill of the driver. Is the driver fatigued or distracted?
Location: Recognises that risk and injury can vary depending on location.	Usage: Is the vehicle transporting people, goods or both?
Time of Day: Higher premium loadings for Friday & Saturday night, big events and time-of-year such as December as the risk is demonstrated to be higher.	Design and Features: Safer vehicles receive a better rating. Others such as vehicles with large passenger carrying capacity receive a heavier loading.
Shift duration: Hours worked/driven before starting a passenger service shift.	Owner: A lower loading if a vehicle is being driven for a service provider with good safety policies and outcomes.

November 2018 Issues Paper

Significant issues and outcomes from the workshop were distilled into three key considerations:

- The nine design principles proposed in the workshop,
- The eight risk rating Factors proposed in the workshop, and
- Key challenges for the industry derived from discussions during the workshop that included:

- *Multiple functions* – different classes of vehicles are being used to perform different functions (passenger/food/delivery services)
- *Vehicle, driver and business relationships* – a driver may operate one or more vehicles across one or more service providers performing different functions
- *Identification* – the challenge for insurers to identify everyday passenger vehicles used to provide passenger services
- *Access* – the ongoing relevance of rank & hail work compared to ‘booked services’.

These considerations became the central issues in SIRA’s Point to Point Horizon Scanning Issues Paper (the issues paper) that was released for consultation on 15 November 2018. Submissions were received from government, insurers, taxi and ridesharing stakeholders. Some common themes from the submissions were that new arrangements should consider safety and the importance of technology and data to determine risk.

Some notable feedback against the key considerations were as follows:

Design Principles: Those submissions that commented on the design principles were supportive. Some submissions emphasised the importance of enforceability and compliance around new CTP arrangements.

Key Challenges: Feedback around industry challenges was varied and sometimes conflicting. For example, there were views that new arrangements should be limited to passenger services while others stated that vehicles providing other services should be captured.

Other challenges were:

- there will be a need to capture passenger services regardless of whether the trip is fare-paying
- the need to capture all passenger services regardless of how many providers a driver/vehicle is associated with
- customer feedback is an important safety measure
- taxi business models are such that CTP insurance policies are the responsibility of the operator, not the driver.

Risk Rating Factors: Most of the eight rating factors were considered relevant. Some general comments around the proposed factors were:

- Insurers should be able to negotiate directly with service providers for data and the cost of CTP
- rating factors and CTP prices could apply to specific service providers
- factors around driver history would provide greater levels of responsible behaviour and improve safety
- shift durations are relevant.

SIRA’s Response

SIRA must ensure compatibility with the existing principles under which the CTP scheme operates. SIRA’s role includes ensuring sustainability and affordability, for a scheme which promotes competition and innovation. SIRA’s response to feedback on the issues paper is as follows:

- the design principles must include ‘compliance and enforceability’
- options for new arrangements will be confined to passenger services in the first instance, with due consideration given to whether options are able to be expanded to cover different business models
- SIRA’s key considerations for premium mechanisms will focus on broad applicability rather than passenger service business models
- considerations and discussions on options will highlight key areas of stakeholder interests:
 - risk and evidence-based approaches

Draft

- the role of data
- the potential for improved safety outcomes
- prescription levels and significant implementation issues.

3. Options for New Arrangements

This section contains five options for new arrangements. Each option:

- Outlines the requirements for point to point CTP premiums setting
- Lists the key benefits and risks
- Provides examples which illustrate how the options could work

Option 1 – Point to Point Driver Policy

Requirements:

- Specific Classes for Taxis and Private Hire Cars would be removed.
- Taxis and Private Hire Cars would be transitioned into Class 1 and be required to hold a Class 1 CTP policy for the vehicle.
- All drivers intending to provide passenger services would be required to take out an additional driver policy.

Key Changes:

- A CTP policy is attached to the vehicle in the normal way i.e. the policy is linked to the vehicle. CTP premiums will be as per other vehicles in their class e.g. Class 1. The vehicle CTP policy would be in force for all activities excluding providing a passenger service.
- In addition, point to point drivers (of taxis, private hire cars and other passenger services vehicles e.g. rideshare) would be required to take out an additional CTP policy to cover the time spent conducting passenger services. This policy will be attached to the driver whether they provide any or all of taxi, private hire car or rideshare services.
- Total premiums for driver policies plus vehicle policies would need to cover the risk pool of point to point vehicles. Premiums would vary depending on approved risk rating factors e.g. driver history and time/distance spent providing the service.
- Regulatory requirements such as claims management processes, licensing and registration etc would be equivalent to a standard CTP policy.
- Legislative changes within and outside of SIRA would be required to ensure that drivers take out a driver policy and that Authorised Service Providers (ASPs) take appropriate steps to ensure that drivers are appropriately insured e.g. the Point to Point Commissioner making it a condition of licence to have systems to ensure a valid driver CTP policy.
- RMS will be required to make system changes to allow insurers to record the drivers who have purchased the additional cover.
- ASPs will be required to develop a suitable system to determine whether drivers have a policy or not.
- This option is likely to delay the implementation start date of Horizon 3 arrangements beyond December 2020 to allow for legislative and system changes in implementing a new policy type.

Key Benefits and Risks:

Benefits	Risks
<ul style="list-style-type: none"> • Evidenced based: The premiums for the driver policy would be reflective of the risk factors for that individual which could include time/distance spent on the road, days of the week, time of day, driving history etc. • Safety: All driver policy premiums would be linked to driving behaviour and safety. Safer driving behaviour would lead to lower premiums. • Promotes competition: This option promotes competition between insurers. • Removes risk that cars would be uninsured: As a vehicle policy still exists. 	<ul style="list-style-type: none"> • Non-disclosure: Risk of drivers not taking out policies, cancellation of registration for non-compliant drivers is not available. If drivers do not take out these policies, the cost of claims would fall on the driver's vehicle policy and the relevant insurer would handle claims. • Disputes on which policy is in force: In the event of an accident the use of the vehicle determines which policy a claim is made against. • Compliance: It would be very difficult to regulate drivers who do private trips or under report. • Drivers for multiple providers: There would be difficulties in identifying the drivers and the related issue of requiring drivers to report if they ride for multiple services. Capturing this data would be difficult. • Additional cost perception: There may be a perception that this is an additional cost for drivers rather than a shifting of cost. • Cost and time required in overhauling the current system: Insurers and service providers have already incurred significant costs in moving towards usage-based systems. System changes will also require time to implement.

Example Scenarios¹

John owns a taxi which is affiliated to a Sydney cab company (ASP). He has taken out a CTP policy for his vehicle. John's policy provides CTP cover when someone driving his taxi is not carrying out a passenger service e.g. to the garage for repair.

Jane drives John's cab for a living and needs to buy a special policy that covers her when she is driving for the Sydney cab company. Jane's CTP policy provides cover for the whole time that she is working to provide

¹These examples are just some ways that the option could be implemented (not how it will be implemented). Note that alternatives will be explored.

a passenger service including driving to and from trips and carrying passengers. Both John and the Sydney cab company have a responsibility to make sure that Jane has one of these special CTP driver policies.

Jane also drives her own car for a ridesharing company. She needs to have a CTP policy for her car. Jane can then use the same CTP driver policy to cover her ridesharing work. The ridesharing company has a responsibility to make sure that Jane has one of these special CTP driver policies before allowing her to drive for them.

SIRA makes sure that there is a limit on how much or how little insurers can charge John and Jane for both types of CTP policy.

Possible Implementation Solutions

SIRA would determine the total premium pool needed to cover the risk of all passenger services vehicles operating on NSW roads. The owner/operator of a passenger vehicle would need to ensure that drivers operating the vehicle are aware of the need to have a point to point driver CTP policy and ASPs would need to check that a valid policy is in place.

The premium could be varied based on the driving history, expected usage, area of operation or other allowable factors, within set (bonus malus) limits determined by SIRA.

Does the option satisfy the principles for new arrangements?

Principle	Comments
Affordable & Fair pricing of risk	Premiums will be significantly more affordable for taxi owners/operators, which should result in lower bailment rates. Drivers will pay for an additional policy, but only to reflect additional risk. Pricing will be fairer as premiums will reflect the risk of individual driving behaviour and exposure.
Simplicity	This option employs the current framework used for all other vehicle classes adding no complexity for vehicles. Driver policies would be a new product. While simple in terms of framework this option will require complex and expensive system changes for all insurers and RMS/SNSW. The lead time of these changes will negate its consideration as a timely option.
Promotes competition	This option will promote competition between insurers and provide scope for a new insurance product.
Promotes road safety	This option links driver behaviour while conducting passenger services directly with premiums and safer driving.
Competitive neutrality	All passenger service vehicles are rated on private road use. Drivers can choose to drive on different platforms under the same driver policy.
Evidence-based	Rating factors will be based on those factors which are directly attributable to the passenger service activity.
Privacy	No privacy issues.

Future proof	This option is flexible enough to account for different business models, evolve with industry and be unaffected by changes to or removal of vehicle classes.
Compliance	Drivers may not take out driver CTP policies. Vehicle owner/operators and ASPs may be lax about ensuring drivers have the appropriate insurance, this would have flow-on effects on other pricing and would need appropriate compliance and enforcement activities to be put in place. Auditing service providers on a regular basis would mitigate the risk.

Option 2 – Service Provider CTP

Requirements:

- Specific Classes for Taxis and Private Hire Cars will be removed.
- Taxis and Private Hire Cars will be transitioned into Class 1 and Authorised Service Providers (ASPs) i.e. Taxi Service Providers and Booking Service Providers will be required to take out an additional Umbrella CTP policy to cover operating vehicles.

Key Changes:

- A CTP policy is attached to the vehicle in the current way. CTP premiums will be as per other vehicles in their class, e.g. Class 1.
- ASPs will be required to take out an ‘umbrella’ CTP policy for vehicles that are providing a passenger service or tasks directly associated with their service.
- The vehicle’s own policy would be in force when it is not providing a passenger service.
- The total premiums for service provider policies would need to cover the risk pool of point to point vehicles.
- Regulatory requirements such as claims management processes, licensing and registration etc would be unchanged from a standard CTP policy.
- Premiums would vary depending on the number of vehicles requiring cover and other approved factors e.g. safety history of the service provider.
- Legislative changes outside of SIRA would be required to ensure that ASPs take out an umbrella policy.
- Insurers would be required to make system changes.
- System changes for ASPs may be required to track additional information of each driver which could include driving behaviour.
- This option is likely to delay the implementation start date of Horizon 3 arrangements well beyond December 2020 to allow for legislative and system changes in implementing a new policy type.

Key Benefits and Risks:

Benefits	Risks
<ul style="list-style-type: none"> • Affordability: Lower premiums for taxi owners/operators. • Safety: Would encourage ASPs to implement better safety assurance and training policies to improve driver behaviour. • Minimises the risk that cars would be uninsured: As a vehicle policy still exists. 	<ul style="list-style-type: none"> • Cost to customers: Additional costs at network and ASP level will be passed on to the customer. • Non-disclosure by ASPs: Risk of ASPs not declaring all vehicles. Appropriate ability to cancel a policy needed. • Disputes on which policy is in force: In the event of an accident the use of the vehicle determines which policy a claim is made against. • Accurate details of active drivers: service providers may not know who

	<p>their active drivers are. For example, a company has a number of drivers registered but they may not be driving currently or may have registered with multiple companies, but only drive with one company.</p> <ul style="list-style-type: none"> • Cost of overhauling the current system: Insurers and service providers have already incurred significant cost in moving towards usage-based systems. Insurers will also need to determine appropriate ways to calculate and adjust premiums. • Competition issues: There would be a small number of umbrella policies of larger value. Smaller ASPs may be disadvantaged by the additional cost.
--	---

Example Scenarios²

John owns a taxi which is affiliated to a Sydney cab company (ASP). He has taken out a policy for his vehicle that provides CTP cover when someone driving his taxi is not providing passenger services. The Sydney cab company needs to take out another policy to provide CTP cover for his taxi and all of its other taxis for when they are being used to provide passenger services.

Aashi also drives her own taxi car for the Sydney cab company. Aashi needs to obtain a normal CTP policy for her vehicle. The umbrella policy taken out by the Sydney cab company provides cover for when she is working as a passenger service provider, including driving to and from trips and carrying passengers.

Possible Implementation Solutions

Insurers would develop an umbrella CTP insurance product primarily based on the number of vehicles at the start of the policy period and pre-agreed relevant risk rating factors such as corporate safety policies and cumulative accident history or trip data.

²These examples are just some ways that the option could be implemented (not how it will be implemented). Note that alternatives will be explored.

Does the option satisfy the principles for new arrangements?

Principle	Comments
Affordable & Fair pricing of risk	Premiums will be significantly more affordable for taxi owners/operators, but ASPs would be expected to pass on the cost to vehicles in their network. Insurers may experience difficulties in determining premiums. However, pricing will be fairer as premiums will reflect the safety performance and corporate policies of individual ASPs.
Simplicity	This option employs the current framework used for all other vehicle classes adding no complexity for vehicles. ASP policies would be a new product and these would require system changes for all Insurers.
Promotes competition	This option may promote competition between insurers and provide scope for a new insurance product. The insurers may target certain ASPs and smaller ASPs could be disadvantaged.
Promotes road safety	As CTP is a direct cost to the ASP, it would encourage service providers to have better safety assurance and training policies to improve driver behaviour and road safety and reduce its CTP costs.
Competitive neutrality	Drivers can choose to drive on different platforms if they provide registration details to each ASP.
Evidence-based	Rating factors will be evidence-based against the risk profile of each ASP.
Privacy	No privacy issues.
Future proof	This option is flexible enough to evolve with industry and would be unaffected by changes to, or the removal of vehicle classes. It would follow the need for service providers to be authorised with the Point to Point Commissioner.
Compliance	ASPs may be lax in declaring all vehicles and ensuring that records of vehicles requiring cover are accurate and up-to-date. Appropriate penalties would need to be developed to ensure that insurers are receiving premiums for cover being provided.

Option 3 – Usage-Based Arrangements

Requirements:

- Premiums for passenger service vehicles would comprise a base premium and a component based on fare-paying kilometres (distance-based).

Key Changes:

- This option is dependent on the successful implementation of the Horizon 2 arrangements.
- The base premium for Passenger Service Vehicles would be set equivalent to a Class 1 premium.
- Usage-based premiums would apply to Passenger Service Vehicles driving for ASPs that meet a minimum distance criteria/threshold.
- Private Hire Cars remain in vehicle Class 8.

Key Benefits and Risks:

Benefits	Risks
<ul style="list-style-type: none"> • Continue to use H2 systems: Insurers and service providers have already incurred significant costs in moving towards usage-based systems and could continue to use these systems. • Fairness: As the usage rates applied can be varied based on risk levels. 	<ul style="list-style-type: none"> • Safety: The link between premiums and safer driving is potentially removed for usage-based premiums, because of the sizeable impact that exposure has in determining the overall premium. • Compliance mechanisms for provision of data: The best way to collect data from service providers is currently an unresolved issue for the Horizon 2 usage-based arrangements. • Data collection: Data requirements are likely to be a barrier to entry for new ASPs that are immediately captured under the minimum distance criteria. • Business model: This option is based on a trip data business model which may change over time as the industry evolves.

Example Scenarios³

John owns a taxi which is affiliated to a Sydney cab company and has taken out a CTP policy. John pays the insurance company an upfront amount equivalent to Class 1 premiums when he buys his CTP policy. Vehicle owners at a minimum will pay Class 1 premiums and will incur additional premiums the more the taxi is driven.

To calculate the vehicles usage, John's taxi is fitted with a device that records how many kilometres the taxi travels when carrying fare-paying passengers. The cab company will collect this information from all the taxis that drive for it and sends this information to insurers at the end of each month.

John's insurer calculates how much extra in premiums to charge based on the fare-paying kilometres his taxi has travelled and the cab company pays the additional amount.

SIRA makes sure that there is a limit on how much or how little insurers can charge John for the part of the CTP policy that he pays upfront, but there is no limit on how much additional usage that must be paid.

Possible Implementation Solutions

SIRA would set a minimum threshold for ASPs to be required to pay usage-based premiums, based on the total number of trips they perform.

The usage-rate could be kept at a flat rate or varied for each ASP based on factors such as their safety record or cumulative vehicle claims history.

The usage-rate could also be varied based on other risk factors such as the time-of-day a trip was carried out, and/or the location the trip originated and finished.

³These examples are just some ways that the option could be implemented (not how it will be implemented). Note that alternatives will be explored.

Does the option satisfy the principles for new arrangements?

Principle	Comments
Affordable & Fair pricing of risk	This option currently focusses on exposure as the most significant risk and relies on data to price on other risks. High mileage vehicles may have an affordability issue, although this is offset by an increase in fares. Service providers can choose to on cost the usage-based premium to customers.
Simplicity	Once the usage-based arrangement is implemented for Horizon 2, the transition to Horizon 3 should be relatively simple.
Promotes competition	Prescribing a rate that is the same for all insurers limits competition.
Promotes road safety	The direct link between premiums and safe driving are largely obscured by the exposure rating.
Competitive neutrality	ASPs below the threshold may gain a competitive advantage through not having to pay the usage-based component.
Evidence-based	Evidence can be gathered from the current usage-based arrangements to identify issues.
Privacy	Privacy issues have been largely overcome by the introduction of a clearing house.
Future proof	A change in business models and increased vehicle mobility between ASPs could result in an under-recovery of premiums.
Compliance	High likelihood that all eligible Passenger Service Vehicles will be identified.

Option 4 – Industry Agreed Risk Rating Factors

Requirements:

- SIRA in consultation with industry will determine the use of specific passenger service risk rating factors to be included in insurer premium filings.
- For example, risk rating factors could be distance travelled, location, time of day etc.

Key Changes:

- Taxis would remain in Class 7 with relativities that reflect the realised risk of increased exposure and access to rank and hail work.
- Private Hire Cars would remain in Class 8 with relativities that reflect the realised risk of slightly increased exposure of conducting these services.
- Other vehicles would remain in the other Classes (Class 1, Class 3 etc).
- SIRA and industry will identify relevant risk rating factors, within each of these classes that reflect any risks associated with conducting a passenger service and allow insurers to increase premiums accordingly.
- Vehicle owners (other than Class 7 or 8) would identify to insurers via responses to renewal notices, that they are performing passenger services.
- If 'distance travelled' is an agreed risk rating factor – insurers would be able to decide how this is implemented e.g. through self-declaration, data transfer etc., and what weighting to apply within the bonus malus limits.

Key Benefits and Risks:

Benefits	Risks
<ul style="list-style-type: none"> • Can accurately reflect risk: Agreed risk-rating factors covering the general characteristics of conducting a passenger service and made relative to each vehicle class could include location, time-of-day and distance; and in the case of Class 1/Class 3 vehicles - performing passenger services. • Promotes competition: This option promotes competition between insurers. 	<ul style="list-style-type: none"> • Non-disclosure by drivers: Extremely high risk of drivers not declaring they perform passenger services for Class 1/Class 3 vehicles. Premium pool not adequate to cover risk. • Driving behaviour not linked to safety: Taxi driver behaviour is not directly linked with premiums and would be complex to mandate. • Cost of overhauling the current system: Insurers have already incurred significant costs in moving towards usage-based systems. <p>Not flexible in terms of vehicle ownership: Alternative ownership models, e.g. hire vehicles would not be captured by mandated risk rating factors.</p>

Example Scenarios⁴

John owns a taxi and drives for a Sydney cab company. He has taken out a Class 7 CTP policy for his vehicle. SIRA ensures that his insurer prices risk into his policy.

Jane is a driver for a ridesharing company. Jane has taken out a Class 1 CTP policy with her insurer and has let them know that she sometimes carries paying passengers.

John drives his taxi mostly at night and works a lot around the city on the weekends. Jane only picks up a few passengers on her way to and from work. As John is more frequently on the road and works when there is a higher than normal risk of having an accident, his CTP policy would likely cost more than Jane's policy.

SIRA makes sure that there is a limit on how much or how little insurers can charge John and Jane for this type of CTP policy.

Possible Implementation Solutions

SIRA in consultation with industry would set the specific passenger service risk ratings factors such as distance travelled, location, time of day etc. that insurers would have to consider in setting CTP premiums.

⁴These examples are just some ways that the option could be implemented (not how it will be implemented). Note that alternatives will be explored.

Does the option satisfy the principles for new arrangements?

Principle	Comments
Affordable & Fair pricing of risk	This option does not meet the principle of fair pricing of risk because the ability to adjust premiums would be reduced. This is because there are limits in place on the amount bonus malus that can be incurred. It could also lead to cross subsidisation of Passenger Service Vehicles to cover the risk.
Simplicity	This option employs the current framework used for all other vehicle classes and therefore adds no complexity.
Promotes competition	Insurers would be provided flexibility in how they implement the risk rating factors. Therefore, insurers can differentiate and compete.
Promotes road safety	Mandating safer driving risk rating factors is unlikely to directly link premiums with driver behaviour for the taxi industry. Premiums are linked with safer behaviour for other parts of the industry, although cross-subsidisation could dilute this effect.
Competitive neutrality	Parts of the point to point industry could benefit from cross-subsidisation of premiums, creating inequitable pricing.
Evidence-based	Risk rating factors are evidence-based.
Privacy	No privacy issues.
Future proof	SIRA and industry can determine how often the risk rating factors need to be updated due to changing conditions.
Compliance	Likelihood that certain types of Passenger Service Vehicles will not declare themselves to be Passenger Service Vehicles.

Option 5 – New Vehicle Class

Requirements:

- All Passenger Service Vehicles will be transitioned to a new Class.

Key Changes:

- Taxis, Private Hire Cars and other Passenger Service Vehicles would transition to a new Class with relativities that reflect the realised risk of that group.
- Owners of these vehicles will be required to register their vehicles with an RMS Usage code to indicate passenger service usage.
- SIRA will engage with RMS to develop a new code; or use an existing code.
- Insurers will identify relevant risk rating factors within this Class that reflect any risks associated with conducting a passenger service and will vary premiums within set bonus malus limits.
- SIRA would work with other relevant government agencies such as the Point to Point Transport Commission to communicate registration and insurance changes to passenger service providers.

Key Benefits and Risks:

Benefits	Risks
<ul style="list-style-type: none"> Simple: This option largely employs the current framework. Evidence based: Risk rating factors are evidence based. 	<ul style="list-style-type: none"> Non-disclosure by drivers: Risk of drivers not declaring the extent to which they perform passenger services. This could lead to under-collection of premiums. Safety: Taxi driver behaviour is not directly linked with premiums and would be complex to mandate. Cost and delays due to implementing new systems: Significant costs and delays for RMS and insurers for adopting a new code, managing a new registration process and upgrading systems and processes to accommodate it. Bonus malus limits: If taxis fall into the same class as passenger service vehicles this will increase bonus malus to 1,200 per cent. This could lead to excess malus being applied to passenger service vehicles. Reliance on coding to identify: If the Rideshare driver does not notify RMS of their change and update the usage code the insurer may never track them.

Example Scenarios⁵

John owns a taxi, James owns a Private Hire Car and Jane owns a car which she uses to carry out ridesharing passenger services. When they register these vehicles, or at their next renewal they indicate that they are going to perform passenger services and RMS apply the same special code to their registration papers.

It does not matter that John owns a taxi and Jane owns a small family car, the special code tells insurers that they must sell all three the same type of CTP policy. Insurers will ask them questions about the specific risks around carrying fare-paying passengers such as distance travelled.

John's taxi is on the road every day for several hours. In contrast, James only drives passengers in his Hire Car a couple of times per day and for a few days a week. Therefore, John's CTP policy is likely to be more expensive than James' policy.

SIRA makes sure that there is a limit on how much or how little insurers can charge John, James and Jane for this type of CTP policy.

Possible Implementation Solutions

SIRA would work with RMS to develop a new code to be applied to all passenger services vehicles and set specific passenger service risk ratings factors such as distance travelled, location, time of day etc. that insurers could consider in setting CTP premiums

⁵These examples are just some ways that the option could be implemented (not how it will be implemented). Note that alternatives will be explored.

Does the option satisfy the principles for new arrangements?

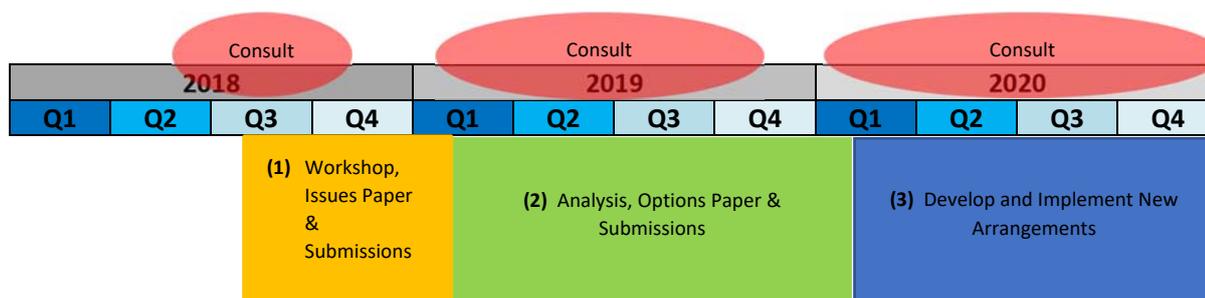
Principle	Comments
Affordable & Fair pricing of risk	This option risk-pools vehicles which are performing similar functions and allows insurers to distinguish different levels of risk within that group.
Simplicity	This option largely employs the current framework used for all other vehicle classes and therefore adds little complexity, although there are significant cost implications to implement the solution.
Promotes competition	This option promotes competition within the CTP insurance market.
Promotes road safety	Development of appropriate risk rating factors could link premiums with safer driving behaviours for some of the industry.
Competitive neutrality	Excess malus may be applied to some passenger service vehicles
Evidence-based	Risk rating factors are evidence-based.
Privacy	No privacy issues.
Future proof	This option can evolve with the industry.
Compliance	Likelihood that certain types of Passenger Service Vehicles will not declare themselves to be Passenger Service Vehicles.

4. Ongoing Consultation and Submission Requirements

Next Steps:

1. Stakeholder consultation following release of Options Paper
2. Submissions for Options Paper to be sent by Friday 24 January 2020
3. Industry workshop to be held after submissions have been sent (date to be confirmed)
4. Development and implementation of preferred option

Indicative timeline to develop post transitional CTP arrangements



What to Address in Submissions

Please ensure that all the questions below are addressed in your submissions.

Questions

For Options 1 to 5:

1. Can you identify other implementation issues or risks that may arise? This includes any system, administrative, commercial or other issues.
2. What implementation solutions do you propose?
3. How would each option affect your organisation?
4. How would each option affect the point to point industry?
5. Which option do you prefer? Please provide reasoning for this.
6. How would you rate the options (out of 10) in terms of satisfying the guiding principles? Please provide reasoning for this.
7. Any other feedback or comments?

Submissions to this paper are due by Friday 24 January 2020. For more details, visit SIRA's consultation page.

5. Key Concepts and Definitions

The following provides a brief description of key terms used in this paper. More detail can be obtained from referenced Acts or Guidelines.

Bonus malus

Bonus malus means to reward (bonus) or to apply a penalty (malus) to a CTP insurance policy. Bonus malus takes into account vehicle class, region of registration and other insurer risk rating factors. Insurers must apply bonus malus in accordance with prescribed formulas (see Motor Accident Guidelines).

Booked service

For the purposes of this paper, a booked service is service provided to a customer by a Booking Service Provider.

Booking Service Provider

A booking service provider takes bookings for taxis and hire vehicles and communicates bookings to drivers (see *Point to Point Transport (Taxis and Hire Vehicles) Act 2016*).

Fare

A fare can be any kind of payment for the provision of a passenger service. The payment could be to the driver, a provider of a passenger service or anyone else (see *Point to Point Transport (Taxis and Hire Vehicles) Act 2016*).

Hire vehicle

Any motor vehicle used to provide a passenger service that is not a taxi or a bus (see *Point to Point Transport (Taxis and Hire Vehicles) Act 2016*).

Insurer

For this paper, an insurer, or CTP insurer refers to an insurer who insures the owner or driver of a motor vehicle against liability in respect to the death or injury to a person (see *Motor Accident Injuries Act 2017*).

Passenger service

A passenger service is the transport by a motor vehicle (other than a bus) which seat 12 (including the driver) or fewer passengers within, or partly within, NSW for a fare (see *Point to Point Transport (Taxis and Hire Vehicles) Act 2016*).

Passenger service provider

Someone who carries on the business of providing a passenger service. (see *Point to Point Transport (Taxis and Hire Vehicles) Act 2016*).

Passenger service vehicle

A motor vehicle that is used to provide a passenger service. (see *Point to Point Transport (Taxis and Hire Vehicles) Act 2016*). In this paper, passenger service vehicles encompass, taxis, hire vehicles and private hire cars. This can also refer to rental cars that are hired and used to provide passenger services.

Point to Point Compulsory Third Party (CTP) arrangements (arrangements)

These arrangements refer to how CTP policies are determined and applied to point to point vehicles operating in NSW.

Premium relativities

Premium relativities are actuarial considerations that similar vehicles have similar expected experiences in the NSW CTP insurance scheme. Insurer relativities are used to determine the relative risk of vehicle classes (including consideration of region) compared to the base relativity for a class 1 vehicle in the Sydney region

(100). There are five regions: Metro (Sydney), Outer Metro, Newcastle/Central Coast, Wollongong and Country. The class 1 base premium is then multiplied by relativities applicable to each vehicle class with consideration to region to determine the base premium for those classes (see the Motor Accident Guidelines).

Premium funding

For this paper, premium funding refers to commercial lending services that pay insurance premiums on behalf of CTP policy holder to a nominated insurer. The policy holder can repay the loaned money in instalments over the life of the policy.

Private hire car

These vehicles are distinct from hire vehicles in that they perform traditional point to point services such as limousine hire.

Taxi service provider

A person that transports a person for a fare (passenger service) in a taxi (see *Point to Point Transport (Taxis and Hire Vehicles) Act 2016*).

Transitional arrangements

These arrangements refer to the current legislative requirement under clause 7 of Schedule 4 of the *Motor Accident Injuries Act 2017*. This requires similar CTP insurance premiums to be paid between taxis and comparable hire vehicles. This is currently achieved using a rating factor of distance to calculate the number of fare-paying kilometres a vehicle travels. This total of fare-paying kilometres is multiplied by a cents-per-fare-paying kilometre rate to determine this part of the premium, which is then added to the part of the premium paid at the start of the policy period. The distance premium is paid in instalments during the policy period. This type of premium is referred to as 'usage-based'.

Usage-based

Trip distance based component of CTP insurance premiums for passenger service vehicles. Determined on the total fare-paying kilometres (representing exposure risk) these vehicles travel during a policy period.

Vehicle class

SIRA's actuaries determine that similar vehicles will be placed into specific insurance classes. For example, most passenger/commuter vehicles (the family car) are used privately and are generally classified as vehicle class 1. A base premium for vehicles in this class is applied, then insurers apply risk rating factors (vehicle age, driver history) to determine the premiums for individual policies. The amount insurers can discount or increase the cost of each policy above the base premium for a particular vehicle class is determined by bonus malus limits. Each vehicle class has specific bonus malus limits (see Motor Accident Guidelines).

Disclaimer

This publication may contain information that relates to the regulation of workers compensation insurance, motor accident third party (CTP) insurance and home building compensation in NSW. It may include details of some of your obligations under the various schemes that the State Insurance Regulatory Authority (SIRA) administers.

However to ensure you comply with your legal obligations you must refer to the appropriate legislation as currently in force. Up to date legislation can be found at the NSW Legislation website legislation.nsw.gov.au

This publication does not represent a comprehensive statement of the law as it applies to particular problems or to individuals, or as a substitute for legal advice. You should seek independent legal advice if you need assistance on the application of the law to your situation.

This material may be displayed, printed and reproduced without amendment for personal, in-house or non-commercial use.

Motor Accidents Insurance Regulation, Level 6, McKell Building, 2-24 Rawson Place, Sydney NSW 2000

CTP Assist 1300 656 919

Website www.sira.nsw.gov.au

Catalogue no. SIRA0xxxx | ISBN xxx-x-xxxx-xxx-x © State Insurance Regulatory Authority NSW 0818