Submission on Review of CTP Insurance for Point to Point Transport Vehicles

April 2016

About QBE

QBE is one of the few domestic Australian-based financial institutions to be operating globally, with operations in and revenue flowing from 38 countries. Listed on the ASX and headquartered in Sydney, stable organic growth and strategic acquisitions have seen QBE grow to become one of the world's top 20 insurers with a presence in all of the key global insurance markets. As a global insurer, QBE believes that Australia must continually look to refresh its financial and regulatory systems to ensure the nation remains competitive with global financial markets, and attractive to investment.

As a member of the QBE Insurance Group, QBE Australia operates primarily through an intermediated business model that provides all major lines of insurance cover for personal and commercial risk throughout Australia.

QBE Australia has a major presence in the Australian workers compensation and compulsory third party sectors providing insurance and specialist agency services in most jurisdictions throughout the country. QBE also has extensive experience in these areas in international jurisdictions.

Background

QBE welcomes the opportunity to respond to the State Insurance Regulatory Authority's (***SIRA***) Review of Compulsory Third Party Motor Vehicle Insurance for Point to Point transport vehicles discussion paper of March 2016 (***Discussion Paper)***.

QBE understands the general aim of the review is to consider options to clarify the CTP price and regulatory disparities that currently exist between the rules and prices associated with different classes of point to point transport vehicles, given the legalisation of ride sharing by the NSW Government in December 2015.

Currently taxis are easily identifiable within the vehicle pool, as they usually have a dedicated use (most are full time taxis) and are in a separate registration pool (T or TC plates). Ride share vehicles are not easily identifiable as most are regular sedans and are privately registered, and most are only used part time for ride share services.

From a general principle perspective, we support the concept of competitive neutrality for different types of vehicles in the point to point market. We support SIRA's objectives to adopt a more flexible approach to premium regulations which rewards safer drivers and appropriately reflects the associated risks of different uses of point to point vehicles and also that operators should face consistent and fair approaches to premium setting (to the extent possible).

The Discussion Paper sets out a number of options in which the premium system might better accommodate the risks associated with different uses of vehicles in the point to point market noting that the options are not exhaustive and variations within and between could be considered.

As SIRA is aware, the NSW Government has recently announced a comprehensive review of the broader CTP scheme. Our comments on the Discussion Paper are made in the context of the current scheme and may vary depending on possible broader scheme changes.

Option 1 – New vehicle class for ride-share services

Under option 1, a separate ride-share vehicle class would be established with ride-share vehicles required to identify themselves to RMS. Premiums would initially mirror hire car premiums and be adjusted as experience is gained to reflect the risk. Taxis or hire cars as a class would continue to pay a premium appropriate to their risk.

QBE considers this option provides a useful starting point in terms of segregating the ride share risks from the general pool of risks. As identified in the Discussion Paper, the key issue with this option is the variability in exposure within the ride share group, and also to a lesser extent, the taxi group. The CTP risk is closely related to the number of kilometres driven and the time and place of that travel. The creation of a separate class for ride share services will not entirely address this issue, though this option does assist in identifying which vehicles are within the ride sharing pool.

Further consideration would need to be given to embed appropriate mechanisms to ensure all ride share vehicles properly identify themselves to RMS. Experience shows getting some other classes to properly identify themselves, for example rental cars, is already problematic. Possibly this could be achieved with the cooperation of the ride share companies (for example - Uber).

Option 2 – creation of a point to point vehicle class

Option 2 involves the creation of a new point to point vehicle class which would include taxis, hire cars and ride-share vehicles and potentially, partial deregulation in premium setting. A wide discount or bonus structure would apply with premiums based on actual claims experience data, or mandatory risk factors could be introduced to ensure like for like pricing.

This option is similar to Option 1, however as the new class would also contain the existing classes of taxis and hire cars, it is anticipated that there would be a wide disparity of risk experience within the class. Taxi risk relativity is approximately 11.88 times Class 1 relativity. Unless a very wide level of bonus/malus is permitted, there is significant potential for taxis to be heavily subsidised by the ride sharing and possibly hire car vehicles. This presumably would act a material disincentive for the ride sharing vehicles to properly state their usage to RMS.

If however, a very wide bonus/malus is permitted, it is not clear whether there will be real benefit in forming a single class containing such diverse vehicles and risk and whether it would be preferable to pursue Option 1 at least in the short term until further risk experience for ride share vehicles as a class is known.

Our comments in relation to the issue of correct self-identification of the ride sharing vehicles apply equally with this option.

Option 3 – premium deregulation to allow risk rating

Option 3 proposes deregulating premiums to allow risk rating. QBE is concerned that whilst this might enable more tailored and innovative pricing, it is also likely that this option will lead to unintended outcomes that may not satisfy the broader social objectives of the scheme.

Option 4 – rate all point to point vehicles as class 1

Option 4 proposes that all point to point vehicles would be included in class 1 passenger vehicles. QBE does not support this option.

QBE considers Option 4 would create large cross subsidies from consumers to commercial operators of point-to-point services. From an insurer's perspective, this is likely to mean that taxis, in particular, would be extremely under-priced for the risk they present. Providing cover for taxis in these circumstances would be unattractive for insurers and is likely to be avoided.

Any insurers that did provide cover for taxies in any quantity, would be penalised and would need to recover the costs from other classes, making them less competitive for general business than otherwise would be the case.

Option 5 – risk pool (insurance levy on fares)

Option 5 proposes collection of a levy on each fare with a risk pool created to fund the additional insurance cost for insurers.

QBE does not support the establishment of a pool, as insurance pools tend to operate to mask relevant risk signals, which can embed the wrong incentives and can lead to moral hazard.

Option 5, with some adjustments, is however **QBE's preferred option** in terms of equitably ensuring that premium reflects usage.

An additional insurance levy could be applied by replacing the existing fixed price CTP with a smaller fixed component and a variable component based on actual usage. This could be a simple dollars per trip loading, or a more complicated loading based on distance, time of day and location. The existing

metering systems of the taxi industry or the ride share operator may be able to be utilised to capture and remit the relevant information.

This approach would ensure a level playing field between point to point vehicle operators and would more effectively recognise the individual risk characteristics that are presented by individual operators. For example, taxis in low risk areas, are likely to benefit with lower premiums than presently paid.

We recognise that there are some complexities from a legal and administrative perspective that would need to be addressed and we would be pleased to work with SIRA on innovative ways this option could be implemented.

Option 6 – retaining current vehicle class arrangement, freeing up risk factors

Option 6 proposes no change to the current arrangements except that insurers would be given greater freedom to price within each class.

As outlined for Option 3, QBE is concerned that whilst this might enable more tailored and innovative pricing, it is also likely that this option will lead to unintended outcomes that may not satisfy the broader social objectives of the scheme.

Conclusion

QBE thanks SIRA for the opportunity to respond to the Discussion Paper and, as outlined above, supports the concept of competitive neutrality for different types of vehicles in the point to point market. With some adjustments, as noted above, QBE's preference is to explore Option 5 and we would be pleased to work with SIRA on developing this further.

If there is any further detail or information QBE could provide that would assist, please do not hesitate to contact Kate O'Loughlin, Head of Government Relations & Industry Affairs at

[redacted]