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Point-to-Point Review
State Insurance Regulatory Authority
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Review of Compulsory Third Party (CTP) motor vehicle insurance for point-to-point transport vehicles (MAIR 2016/1)

IAG welcomes the opportunity to provide a submission to the State Insurance Regulatory Authority (SIRA) Discussion Paper 'Review of Compulsory Third Party (CTP) motor vehicle insurance for point-to-point transport vehicles' (the Discussion Paper).

As the largest CTP insurer in NSW, this topic is of significant relevance to IAG. IAG views the recent developments in the transport sector to be an indication of consumer preference. Industries and governments need to evolve and adjust to the changing business environment. Clarity and consistency in the regulatory treatment of emerging alternative business models provides certainty for businesses. This in turn will encourage adaptive innovation and improve consumer outcomes. Given that ridesharing services have been available in Australia since 2009, a clear regulatory response is long overdue.

EXECUTIVE SUMMARY

The Discussion Paper outlines a number of possible options for the CTP premium system to better accommodate the risks associated with different uses of vehicles in the point-to-point market in NSW. Consideration of each of the six proposed options is included in this submission.

IAG would be supportive of a scheme which:

- Allows for the competitive operation of all point-to-point operators;

- Responds to the evolution of the sharing economy and digital disruption as a means to meet changing customer expectations and preferences;
- Encourages and rewards safe driver behaviour and the adoption of safe vehicles which leads improving overall road safety outcomes; and
- Allows for broader and innovative rating practices to facilitate accurate pricing based on individual risk.

With these scheme attributes in mind, IAG's preference is for the implementation of option 3 – deregulation of point-to-point premiums to allow risk rating. This option is preferred predominantly on the basis that it:

- Allows insurers to be innovative in their rating practices;
- Has the flexibility to withstand further technological advancement;
- Has the potential to encourage safer behaviours and safer vehicles; and
- Treats point-to-point operators equitably.

IAG considers that option 3 could be optimised through the adoption of a hybrid approach which combines option 3 with option 1 - creation of a ridesharing vehicle class (priced similarly to Class 1). However, IAG also considers option 1 in itself to be a suitable solution which would meet the identified objectives.

INTRODUCTION

About IAG

IAG is the largest general insurer in Australia and New Zealand, with a growing presence in Asia.

We have a purpose to “help make your world a safer place” which means we are working to create a safer, stronger and more confident tomorrow for our customers, partners, communities, shareholders and our people throughout the Asia Pacific.

IAG has built a strong reputation on understanding the unique needs of Australians, and being a steadfast supporter of the community. Today, we are one of the leading insurance providers in Australia, providing support and services in every state and territory. We pride ourselves on helping our customers understand insurance and to make uncomplicated choices to protect the things they value.

For generations, our extensive range of general insurance products and services has helped people and communities recover and rebuild from the impact of loss and natural disasters. Our scale,

experience and network allow us to be there for our customers when they need us, and to see further ahead to anticipate the challenges of tomorrow.

Last year, IAG insured over \$2 trillion worth of assets, collected \$11.4 billion in premiums and paid out almost \$9 billion in claims. Throughout the Asia Pacific, we employ over 15,000 people, providing career opportunities, and a diverse and inclusive workplace.

We have leading customer brands in the IAG network which include: NRMA Insurance, SGIO, SGIC, CGU, WFI and Swann insurance (Australia); NZI, State and AMI (New Zealand); Safety and NZI (Thailand); AAA Assurance (Vietnam); and Parolamas (Indonesia). IAG also has general insurance joint ventures in Malaysia, India and China. IAG, through its brand CGU, is also a 50% shareholder of National Transport Insurance (NTI). NTI has over 40 years experience and is a market leader in the heavy vehicle motor insurance industry.

IAG's operating brands have a long history of motor accident prevention and mitigation with a view to assisting the broader Australian community, from our NRMA heritage as a motoring organisation to the development of our own Research Centre where physical research is undertaken for the purposes of improving car and driver safety and reducing repair costs.

IAG is the only insurer to be invited to be a member of ANCAP, the ANCAP Technical Committee and ANCAP Council. In addition, IAG is the only Australian insurer to be part of RCAR, a global association of insurance research centres dedicated to improving vehicle safety, damageability, reparability and security. In 2011, NRMA Insurance launched a unique National Repair Quality Framework ensuring high quality and safe repairs on all NRMA insured vehicles.

IAG is also a core partner of the Australian Driverless Vehicle Initiative (ADVI) which is a co-operative of partners from government, academia and industry. The key aim of ADVI is to explore the impacts and requirements of this new automation technology in a truly Australian context and make recommendations on ways to safely and successfully bring driverless vehicles to Australian roads.

IAG'S INTEREST IN THE DISCUSSION PAPER

As one of the largest motor vehicle insurers in the Asia-Pacific, IAG develops, underwrites, sells and manages claims for general insurance products that are sold directly and indirectly to customers and businesses. IAG insures over 3.2 million passenger vehicles in Australia and underwrites around 1.9 million CTP personal insurance policies in NSW and 170,000 in the ACT each year. IAG will also commence underwriting CTP in South Australia from July 2016.

Disruption

Globally, entire industries are being disrupted by shifts such as demographic change, economic uncertainty, technological innovation, increased competition from non-traditional players and greater customer empowerment. Customers now have unparalleled choice, information and influence and are setting high standards for service and consumer experiences. As a result, new ways of delivering products and services to customers are emerging.

Disruptive change is now a fact of life in many industries. Traditional businesses need to adapt to the rapidly changing landscape despite the uneven playing field in government regulation, compliance and licensing. IAG's approach to disruption is to ensure we stay relevant and customer-centric in a fast-changing and increasingly competitive environment.

IAG appreciates the concerns and challenges faced by the Taxi industry and traditional transport providers. Greater regulatory certainty around the new digital technologies and emerging alternative business models will assist all stakeholders to assess and respond to the challenges and opportunities they present. Uber now operates in 398 cities across Australia, New Zealand, Asia, the United States, Europe, the Middle East, and Africa, with numerous competitors appearing such as Lyft, GoCar, Haxi, and Hailo.

IAG is committed to identifying customers' evolving needs and offering products, solutions and coverage to meet those needs.

Regulation

Sound regulatory regimes are required to assist with the stability and sustainability of the NSW CTP scheme. In this context, IAG supports regulation that enhances rather than stifles competition, protects consumers, encourages efficiency and promotes and sustains public confidence in the scheme.

As consumers are increasingly utilising ridesharing services, legislation needs to evolve to keep pace with consumer behaviour. Ridesharing has a consumer and broader social benefit as limited under-utilised resources are shared for maximum economic potential. However, there must be an appropriate regulatory framework in place for these services – as for other commercial operators such as taxis, hire cars and buses.

Insurance

The CTP insurance risk of rideshare vehicles relates to the likelihood of increased risk from utilising a vehicle more often (time and distance) and with more passengers as well as the potential for multiple drivers for one vehicle.

The premiums paid for these vehicles should accurately reflect the usage of a private vehicle and cover any additional risks that come about as a result of using a private vehicle for ridesharing. To fully fund an insurer’s liabilities, premiums must accurately reflect the risk to be sufficient to meet the cost of claims when they are settled.

There are significant differences in usage and risk not only across point-to-point vehicles but also across the smaller number of ridesharing vehicles. These differences are demonstrated in the table below.

Personal use only	Personal use - casual rideshare	Full time rideshare	Car share	Hire cars	Taxis
Limited set of drivers	Limited set of drivers	Multiple drivers	Multiple drivers	Professional driver	Multiple drivers
Standard usage	Higher usage (variable)	Higher usage	Higher usage	Newer vehicles	Vehicles used 24/7
Vehicles of all ages	Newer vehicles	Newer vehicles	Newer vehicles		Older fleet of vehicles
	Includes uberX	Includes uberX	Includes operators such as GoGet, Car Next Door	Includes UberLUX, UberBlack and UberSUV.	
Class 1		Class 1 or Class 9A (drive yourself hire-car) ¹	Class 1	Class 8 (private hire car)	Class 7

¹ There is an emerging market for individuals (Class 1) and hire car companies (Class 9A) to lease vehicles to others specifically for the purposes of ridesharing.

It is possible that drivers who occasionally use their personal vehicle for ridesharing, and who are not undertaking this as a full-time activity, are exposed to only limited additional risk outside of what is already captured in the current Class 1 structure. Interestingly, in NSW, car-sharing vehicles (such as GoGet), are included in Class 1 (or equivalent) for the purposes of risk rating.

Currently there is a degree of uncertainty regarding whether the use of a vehicle for 'business use' reflects an additional risk. NRMA Insurance asks a question during the purchase process about whether the vehicle is used for business purposes. This question is asked for the purpose of determining whether or not the policyholder can claim an Input Tax Credit (ITC) on the policy, and *not* for the purpose of identifying a risk factor.

The distinction between 'business' and 'private' use is not well understood and is an issue that government and ridesharing operators will need to consider for tax purposes. Simply put, the use of a vehicle in a commercial capacity alone does not determine its class.

For the purposes of sustainability and fair collection of premium to cover risk, the design of the NSW CTP scheme must:

1. Enable the collection of data to facilitate ongoing accurate assessment and pricing of risk;
2. Encourage disclosure of vehicle usage; and
3. Provide flexibility for innovation.

Road safety

IAG has a long history of advocating for road safety and it is at the very core of our business. A road safety culture, implemented at all levels of our society will help keep drivers safe, reduce collisions, injuries and damage to vehicles. This can in turn lead to a reduction in claims frequency which is ultimately in the best interest of the community, our customers and our business. This will also help keep insurance affordable for the long term.

Vehicles used for the paid transportation of the public should be held to a higher standard. There is a need for regulation of minimum standards to protect customers. Driver behaviour and vehicle design should be considered in the development of minimum safety standards. This should as far as practicable, take the form of self-regulation or principle based regulation.

SUMMARY OF REPONSES TO OPTIONS PROPOSED

Option	Description	IAG position	Order of preference
1	Creation of a new vehicle class for ride-share services	Preferred	2
2	Creation of a point-to-point vehicle class	Not preferred	4
3	Deregulation of point-to-point premiums to allow risk rating	Preferred	1
4	Rate all point-to-point vehicles as Class 1 vehicles	Not preferred	5
5	Risk pool (insurance levy on fares)	Not preferred	3
6	Retaining current vehicle class arrangements, but freeing up risk factors	Not preferred	6

CONSIDERATION OF OPTIONS PROPOSED

Option 1: Creation of a new vehicle class for ride-share vehicles

IAG position: Preferred

IAG, in its submission to the NSW Point to Point Transport Taskforce last year submitted that the creation of a new vehicle class for rideshare vehicles was a possible solution to positioning ridesharing in the NSW CTP regulatory scheme.

A key challenge of this option (and options 2 and 3) as outlined in the discussion paper is the identification of rideshare vehicles. The operation of unidentified ridesharing vehicles means that premiums for these vehicles are not reflective of actual risk and that data for these ridesharing vehicles is not captured.

The collection of information to identify ridesharing vehicles could be facilitated through inclusion in the vehicle registration process. The data could be collected by Roads and Maritime Services (RMS) and shared with CTP insurers.

The success of this option is dependent on vehicle owners disclosing their use of their vehicles for ridesharing at the time of registration. Potential solutions to ensure vehicle owners disclose correct use so that rideshare vehicles are identified, the correct premium paid and rideshare claims data collected could include:

- Fines or licence revocation for failure to disclose use of a private vehicle for ridesharing, including mechanisms for this to be reported by NSW Police, RMS and insurers
- Continued ability for insurers to recover any difference between the premium paid and the appropriate premium from the vehicle owner
- Mandatory reporting from insurers to SIRA where claims are received for ridesharing vehicles where the correct premium was not paid/correct vehicle not nominated.
- Regular periodic provision of information from rideshare companies (including the date vehicles are registered with the company) to RMS to facilitate a cross-check of vehicles and their nominated vehicle class. If the correct vehicle class has not been nominated, the owner should incur a penalty. If the correct vehicle class has not been nominated, however CTP has not fallen due since the vehicle was registered for ridesharing, a letter could be sent to the owner to advise they must nominate as ridesharing upon renewal of their CTP or they may receive a penalty.

The creation of a ridesharing vehicle class would ensure necessary data is obtained to identify the risk associated with ridesharing vehicles. The advantage of this option is that it provides a simple mechanism for the collection of data with respect to the ridesharing driver over the long term and if these drivers are found to be a lower or higher risk, there is opportunity and mechanism to enable price to follow the risk.

It is not IAG's preferred approach that the price of this separate class mirrors that of hire class vehicles. Given ridesharing vehicles have not previously been a separate vehicle class, there is no data available to demonstrate that vehicle exposure, claims propensity or frequency for ridesharing vehicles is comparable to that of hire cars. Further, we submit that this pricing would discourage disclosure by some rideshare operators and generally has the potential to discourage the provision of ridesharing services utilising spare capacity in privately owned vehicles, which would be contrary to consumer outcomes.

We consider that a ridesharing vehicle class could operate for an initial period as a separate class but with the same price points as Class 1 and the relativities could be reassessed after a sufficient amount of data has been collected over a period of time.

Alternatively, the pricing of a ridesharing vehicle class could be introduced as 110% of the Class 1 price (0.1 relativity). This approach has been adopted by NRMA Insurance in the ACT, with the creation of a ridesharing vehicle class from 1 April 2016.

NRMA Insurance has adopted this conservative pricing for ridesharing vehicles in the ACT to be fair to drivers in this vehicle class and due to the overall lack of data for ridesharing vehicles. Whilst there

are higher risks associated with vehicles being on the road for longer periods, these risks were difficult to quantify and there were factors which supported a lower premium, such as:

- Ridesharing vehicles are generally newer (UberX currently only allows vehicles manufactured from 2006 on, or 2010 on for UberBLACK, UberSUV and UberLUX)
- Ridesharing drivers must have a safe driving record and undergo a criminal check
- There is a general understanding that, unlike taxis, most rideshare operators drivers do not use their vehicles extensively for ridesharing and that the overall kilometres travelled per year would remain comparable to Class 1 use.

The pricing adopted by NRMA Insurance for ridesharing vehicles in the ACT reflects IAG's support for a fair approach to the shared economy. IAG deliberately kept premiums for rideshare vehicles affordable so that prices did not discourage operators providing ridesharing services or deter them from self-identifying as ridesharing operators when registering their vehicles.

We consider that adoption of this pricing in NSW (which would represent an increase in the current state-average Class 1 premium of around \$53) similar to ACT, is not so high as to deter the provision of ridesharing services or disclosure of ridesharing when purchasing CTP.

The creation of a ridesharing vehicle class would also produce a fair outcome and be consistent with other vehicle classes because premiums for ridesharing would be commensurate with risk and based on an independent assessment by the Scheme Actuary.

The introduction of a separate ridesharing class would also enable insurers to charge loadings and offer discounts (operate a bonus malus scheme) based on their own underwriting criteria.

Option 2: Creation of a point-to-point vehicle class

IAG position: Not preferred

The key challenge of this option is the identification of ridesharing vehicles, as outlined in our consideration of option 1, above. There are potential solutions to this challenge, which have also been outlined above.

This option would mean that insurers will have a wide bonus malus range which may allow them to implement rating factors/underwriting rules to vary price between taxis, hire cars and ridesharing vehicles.

IAG considers Option 1 is preferable to Option 2 as the introduction of a ridesharing vehicle class (option 1) would create a degree of homogeneity in the vehicle class groups. The grouping of all point-to-point vehicles together in one class is problematic as there are currently three different operating models, with different “rules” for each operating model. It is likely insurers would create a rating factor (such as “type of point-to-point vehicle” where the choices are taxi, hire car or rideshare) to differentiate between the three point-to-point vehicle groups. This approach could work, but is sub-optimal. IAG considers that the optimal solution is separating the three operating models to create smaller, more homogenous vehicle classes to better reflect the underlying risk.

Option 3: Deregulation of point-to-point premiums to allow risk rating

IAG position: Preferred

IAG considers this option offers the best solution for the NSW CTP scheme when considering the identified objectives. A key challenge of this option is identification of ridesharing vehicles. Potential solutions to this challenge are outlined in our consideration of option 1 above.

A benefit of this option is that it treats point-to-point operators equitably, based on their individual risk. IAG supports this approach as it allows a fairer pricing mechanism.

This option would allow insurers to be innovative in their risk rating and the freedom to determine how best to price point-to-point vehicles. If this option was implemented, insurers may continue to use similar rating factors as are used currently to rate these vehicles (for example, age of driver, demerit points, vehicle age). However, it also allows insurers who wish to be innovative in pricing point-to-point vehicles the ability to do so in the future. This may include the use of telematics to encourage safer driving and risk signalling.

IAG notes the position of the *Independent Review of Insurer Profits within the NSW CTP Scheme* (the Profit Review) with regard to the potential use of telematics (at page iii):

“The Review notes that existing technology allows driver behaviour to be captured directly via an on-board device or mobile phone app (telematics). Such technology would allow premiums to be determined based on actual driving behaviour, rather than by reference to the proxies currently used to determine premiums. Policyholders who drive less, for example, could be charged a lower CTP premium than those who drive more often, all else being equal. Such a technology-driven approach may be a viable option for determining premiums in the long run.”

IAG supports a scheme structure which allows insurers to innovate in a way which empowers customers to manage their own risk. Innovation may include telematics but we consider that the use

of technology (or a specific technology such as telematics) should not be embedded in regulation. Regulation should be technology agnostic to ensure that it has the flexibility to withstand further technological advancement, including the introduction of more automated vehicles.

IAG submits that deregulation of point-to-point premiums is an ideal long-term solution. It is preferable to implement this option now, as opposed to implementing a potentially interim option (for example, creation of a rideshare vehicle class or a point-to-point vehicle class) and then moving to deregulation of point-to-point premiums in the future.

Improved road safety outcomes are also a potential benefit of this option. It is noted that the NSW Government Point to Point Taskforce recommended that:

*“The framework for establishing CTP cover for point to point vehicles be reviewed in recognition of the more flexible use of vehicles across the current classifications, to **consider a system that better rewards safer behaviours**”.*² [emphasis added]

IAG considers this option is most likely to achieve this outcome, if pricing has the ability to drive behavioural change. Deregulation of point-to-point premiums to allow risk rating on additional factors would allow insurers to rate risk based on factors including:

- Age of driver
- Driving history
- Type of vehicle
- Age of vehicle
- ANCAP safety rating of vehicle
- Garage address

Use of these risk rating factors would increase premiums for poorer risk point-to-point vehicles such as some taxis. However, given it also indirectly encourages and rewards safer driving behaviours as well as the adoption of safer vehicles, it provides a clear incentive for poorer risk operators to improve their safety behaviours and contribute to improved road safety outcomes.

IAG notes SIRA’s concern that implementation of this option may lead insurers to charge unaffordable premiums. IAG submits that competition amongst insurers would potentially address this concern, but also notes the potential benefits to motorists, consumers and the overall scheme in making premiums unaffordable and thus preventing dangerous drivers with unsafe vehicles from transporting passengers for commercial purposes.

² p57, NSW Government Point to Point Transport Taskforce, *Report to the Minister for Transport and Infrastructure*, November 2015

Whilst not an ideal solution, IAG is open to a cap on premiums to ensure they remain affordable, even for the highest risk vehicles. It should be noted this ultimately means safer rideshare operators will have to subsidise the high-risk operators, reducing the benefits of investing in safer technologies.

Option 4: Rate all point-to-point vehicles as Class 1 vehicles

IAG position: Not preferred

IAG does not favour this option on the basis that it would have a disproportionate effect on vehicle owners in NSW. Given the significant differences in risk between point-to-point vehicles and Class 1 passenger vehicles, this option would increase cross-subsidy of poorer risks within the scheme.

Additionally, the resulting increase in the premium for Class 1 (estimated to be at least \$18) vehicles is at odds with a key objective of the current CTP scheme review to reduce CTP premiums in NSW as the majority of vehicles would receive an increase.

IAG also notes that this option does not have the potential to encourage or reward safer driver behaviours and safer vehicles through broader risk rating practices.

The NSW Point to Point Transport Taskforce notes at page 57 of its report, that:

“There is ... a need to ensure that insurance premiums reflect risk ... to ensure that taxi industry participants are aware of the economic and social consequences of their actions, and can take preventative steps in order to reduce costs.”

IAG submits that this option would not provide any incentive for the taxi industry to improve their driver and vehicle standards to reduce their CTP premiums and reduce claims.

Finally, there is the potential for insurers to implement a rating factor to identify point-to-point vehicles (particularly taxis) within Class 1 and charge these vehicles the maximum price, which would limit competition within the market. Rating all point-to-point vehicles as Class 1 vehicles is analogous to the way in which the insurance market prices young drivers. Whilst there are some drivers under 25 who may be a “good risk”, all insurers charge them the maximum price. It is fair to consider that a similar situation would occur if all point-to-point vehicles were rated as Class 1 vehicles, particularly taxis, whose current relativity is nearly 12 times higher than that of Class 1 vehicles.

Introduction of this option would also lead to large losses for any insurer with high exposure to point-to-point vehicles, requiring that insurer to increase premiums for all motorists in order to cover their claims costs. This insurer will become uncompetitive in the market, and may ultimately be forced to leave the scheme. As SIRA notes, this option would require a risk pool for it to be feasible.

Option 5: Risk pool (insurance levy on fares)

IAG position: Not preferred

There are some potential advantages of this option including addressing issues of uncertainty around how much an individual may be using their private vehicle to provide rideshare services.

A risk pool may operate on the basis that all point-to-point vehicles are placed in the same risk class and that a “user-pays system” is utilised to meet the deficit between the premium paid and the premium required to cover the risk of the vehicle, with point-to-point operators collecting an insurance levy on each fare. Some users of point-to-point vehicles (for example fares taken on Friday and Saturday nights or in the Sydney CBD) may pay a higher levy for the heightened risk their time and/or location of usage presents.

A levy on point-to-point companies would be required to ensure collection for risk pooling. Taxis are already equipped with this capability (for example, for road and bridge tolls), however mechanisms would need to be established to collect levies from hire car and rideshare companies.

This option would also be assisted by introduction and use of telematics in determining premiums, the benefits of which are noted above in our consideration of option 3.

Despite these potential benefits, IAG submits that introducing a risk pool would be quite complex and could undermine insurer control over determining appropriate prices and underwriting standards.

Further challenges include:

- The legal and administrative complexities of operating a risk pool and collecting revenue, as noted by SIRA;
- There is no encouragement of or reward for safer driving behaviours and safer vehicles;
- Risk pooling through an insurance levy on fares relies on real-time pricing as well as de-regulation of taxi pricing;
- The concept of a risk pool is being considered as a result of the Profit Review. It is possible that a further, tangential risk pool may increase complexity of the NSW CTP Scheme;
- As noted in the Discussion Paper, claims processes may be more complex. This essentially means claims would become more expensive and claim durations would increase. This contradicts the current objectives of the current CTP scheme review; and
- Deficits may occur in circumstances where a higher than expected volume of claims is received and insufficient levies have been collected to cover the cost of the claims.

Option 6: Retaining current vehicle class arrangements, but freeing up risk factors

IAG position: Not preferred

IAG submits that this option would be overly complex in practice and administratively burdensome because the freeing up of risk factors only applies to a subgroup of Class 1 vehicles (ie ridesharing vehicles).

IAG also shares SIRA's concern that this option would create perverse incentives for rideshare operators to only declare use if this results in a lower price and would not achieve the key objective of vehicles paying according to individual risk.

IAG would be pleased to share our knowledge and expertise and discuss aspects of this submission with SIRA in greater detail. Should you wish to discuss this submission, please contact:

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We look forward to participating in the next phase of this review.

Yours sincerely

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