

30 November 2016

Hon Victor Dominello MP
Minister for Innovation & Better Regulation

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

Dear Minister

CTP REFORM - INSURER PROFIT CONSULTATION

The Australian Fleet Lessors Association (AFLA) appreciates the opportunity to inform your Government's consideration of the reform of the NSW CTP Scheme. We note the release of the Discussion Paper: *Reforming Insurer Profit in CTP MV Insurance*.

Background

By way of background, AFLA represents the interests of fleet leasing companies nationally. AFLA's members which include the major fleet leasing and management companies together with five of the major rental industry participants have a combined funded and managed portfolio of more than 550,000 motor vehicles with over \$14 billion of funding provided. Motor vehicles are a key input into the business of our Members and their customers. A significant portion of these are registered in NSW.

Key Issue – CTP Premium Pricing

For AFLA members the key issue in the CTP Reform relates to CTP / Greenslip premium pricing. This was covered extensively in our initial submission to the earlier Discussion Paper to commence the review process. In summary, in addition to a CTP Scheme that is sustainable, appropriately benefits the most seriously injured road users in a timely manner while minimising fraud, it should be affordable and efficient. In consequence, **AFLA recommends** downward revision of the costs of CTP Premiums in NSW, in particular for rental industry participants, to ensure:

- better alignment with equivalent types of vehicle-use in NSW and consequently risk (eg car sharing services or business use); and
- CTP premium pricing and process that applies on a national basis with variation confined to clearly identified evidence-based public policy differentiators.

Future Reform Proposal – National Harmonisation / Uniformity

On a broader level, AFLA recommends a nationally aligned and coordinated approach both to CTP and motor vehicle registration more generally. This should enable and enhance opportunities for a seamless administration of motor vehicles and the processing of claims for damage from personal injury accidents involving vehicle-users across Australia; with attendant benefits and cost-savings for government and also both for injured parties and for those that meet the CTP premium costs to provide the Scheme or to register a vehicle for road-use.

We attach a copy of our earlier submission providing more detail and request it be considered in the context of the current Discussion Paper process. We would be pleased to answer any questions or to provide additional information, as required.

Kind regards



Helen Gordon
Executive Officer

Hon Victor Dominello MP
Minister for Innovation & Better Regulation
CTP Review
State Insurance Regulatory Authority
L25 580 George Street
SYDNEY NSW 2000

25 May 2016

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

Dear Minister

NSW CTP REVIEW – IMPACTS FOR FLEET LESSORS & MANAGER

Members of the Australian Fleet Lessors Association (AFLA) appreciate the opportunity to provide input to inform the Review of the *NSW Motor Accidents Compulsory Third Party (CTP) Scheme*. We commend the NSW Government for taking action to ensure the CTP Scheme is appropriate for people injured by road-users in NSW, and its design is future-proofed in a way that enables innovation while reducing red-tape. We note the timeframe that SIRA is working to in relation to finalising the Review and have appreciated its accommodation of additional time to assist AFLA provide input.

Background

By way of background, AFLA represents the interests of fleet leasing companies nationally. AFLA's 19 members which include the major fleet leasing and management companies together with four of the major rental industry participants (list attached) have a combined funded and managed portfolio of more than 550,000 motor vehicles with over \$14 billion of funding provided.

Motor vehicles are a key input into the business of our Members and their customers. Passenger vehicles dominate the fleet; with light commercials and heavy vehicles completing its makeup. The majority of AFLA members operate across state-boundaries, if not nationally. As a consequence, laws at either the state or federal level that impact that key business asset, including registration and CTP insurance, are relevant and can add significant cost to the operations of our Members and their customers. These costs can be:

- direct – reflecting a direct charge for a service or product; or
- indirect – representing labour, administration and other resource costs to comply with the law.

Often a significant contributor to the quantum of the indirect costs, in particular, is where the laws that apply are state-based and vary across the states / territories requiring our Members to have processes that reflect that piecemeal approach. Given the intra-state focus of government, it is not uncommon for the states and territories to have laws that apply to motor vehicles with the same underlying policy objective but variation in the design of regulation (and consequently processes) to implement or achieve that objective. Where variation is soundly based on a key public policy differentiator, the need to have different intra-state processes with the flow-on additional costs can be justified. However, for entities like AFLA Members that operate regularly on an interstate basis, where variation is purely process or implementation design these additional indirect costs can be difficult to rationalise and therefore justify. And, often the end-customers bears this cost in the price they pay for fleet vehicle finance / management or rental.

Therefore, a principal objective of AFLA is to work with government at both the state and federal level to reduce red-tape by removing inter-state variation in the process and costs to register and CTP insure motor vehicles in Australia unless such variation is soundly based on public policy differentiators. AFLA acknowledges that these differentiators may include economic or budgetary drivers that may necessitate variation in the quantum of fees, for example. Our focus is not at the macro-economic level; but rather at the microeconomic level of promoting best-practice in regulation-making while reducing red-tape. The outcome should be laws that achieve their public policy objectives in a manner that reduces cost with the flow on benefit to the end-consumer or customer.

CTP Review – AFLA Position

A significant portion of the AFLA fleet is currently registered in NSW. We would be happy to provide more specific numbers, if required. Given that a substantial portion of the Australian population resides in NSW and that tourism volumes are significant to it, AFLA also recognises NSW as critical to the potential growth and sustainability of its Members' businesses.

Consequently, AFLA has identified the NSW Government's *CTP Review* as timely and a key means of engaging with your Government and others as part of AFLA's broader objective of achieving a national harmonised process of registering and CTP insuring motor vehicles in Australia with the attendant cost savings for customers.

In summary, AFLA in principle acknowledges and supports the first three key objectives of the CTP Review; namely:

- the increase of the proportion of benefits to the most seriously injured road users;
- claim resolution timeframe reduction;
- reduction of fraudulent and exaggerated claims;

on the basis that together they should achieve a CTP Scheme that is easily accessible by injured road users to reasonably compensate them for damages incurred or loss suffered while minimising fraudulent or exaggerated claims. In our view, a person seriously injured by motor vehicle road use should have access to such a system whether the accident be in NSW or any other state or territory in Australia. We question the public policy basis for intra-state variation.

The fourth objective on which the Review is proceeding is key to AFLA Members' operations. In addition to a CTP Scheme that is sustainable, it should be affordable and efficient. In consequence, **AFLA recommends** downward revision of the costs of CTP Premiums in NSW, in particular for rental industry participants, to ensure:

- better alignment with equivalent types of vehicle-use in NSW and consequently risk (eg car sharing services or business use); and
- CTP premium pricing and process that applies on a national basis with variation confined to clearly identified evidence-based public policy differentiators.

On a broader level, AFLA recommends a nationally aligned and coordinated approach both to CTP and motor vehicle registration more generally. This should enable and enhance opportunities for a seamless administration of motor vehicles and the processing of claims for damage from personal injury accidents involving vehicle-users across Australia; with attendant benefits and cost-savings for government and also both for injured parties and for those that meet the CTP premium costs to provide the Scheme or to register a vehicle for road-use.

A summary of our reasons follow and we would be happy to provide more detail, if required.

CTP Premium Pricing + Process

AFLA members provide vehicle finance to commercial customers (eg via fleet leasing, commercial hire-purchase or chattel mortgage) and to individuals (eg via salary-packaged novated leasing or personal finance). The type of finance product may see the AFLA member as a matter of law remain the vehicle owner (eg operating lease or commercial hire-purchase) or ownership may pass to the finance customer (eg chattel mortgage). Our rental participant members provide mobility services through vehicle rentals to commercial or consumer customers. They may own the vehicles outright or have access via a financing arrangement provided by another AFLA member.

AFLA members may also provide management services as part of the broader financing transaction or as a separate service to their customers or as the vehicle-owner (eg for our rental industry participants and those providing operating lease facilities). Generally, with the exception of our rental industry participants, the AFLA member is not regarded as having responsibility for the day-to-day operation of the vehicle. However, AFLA members that provide management services or that are the vehicle owners will be responsible for the administrative elements involved with running a vehicle fleet (eg registration / CTP renewals).

In the case of registration and CTP, our Members (or their customers) incur costs.

Direct costs for:

- (a) the CTP premium (and associated charges); and
- (b) the registration fee (and associated charges).

They also incur indirect costs associated with the process of ensuring a vehicle is registered with the appropriate level of CTP cover.

These costs are borne either by:

- our Member in the case of vehicles that they have the primary responsibility to register and insure (eg for rental industry participants for vehicles they own and are predominantly responsible for their operation); or
- our Members' customer for vehicles that are financed and / or managed by AFLA Members where the customer is the party predominantly responsible for the vehicle's operation.

A significant portion of the fleet that AFLA Members finance or manage is garaged in NSW. AFLA Members are therefore required to ensure compliance with NSW registration laws (including CTP insurance cover).

We understand that CTP cover is based on risk. Further that risk factors include vehicle category and other associated relativities (eg geographic location – metro vs. country). However, we have difficulty understanding the basis for marked variation in CTP premium for a rental passenger vehicle operated by one of our rental participant members (Type 9(a))¹ from one operated by a car-sharing operator (Type 1)² or one financed by a commercial corporate customer (registered for GST) and used for business purposes by a number of employees (also Type 1³ we believe) where all factors (other than insured remain

¹ MAA Schedule of Premium Relativities (Effective 1 February 2016)

² As per Footnote 1.

³ As per Footnote 2.

equivalent – eg vehicle type, geographic area of operation, age of potential drivers). Why is a rental vehicle used and garaged in a metropolitan location seen to present a higher level of risk than a car-shared vehicle or a commercial entity-employee use vehicle? All have potentially multiple drivers; all are not likely to be in use on a 24/7 basis; all will have drivers of various ages; all as a condition of use will require the driver to provide proof and have verified an appropriate drivers licensing qualification. Yet, as we understand, inclusion in different categories see the rental industry participant (Type 9(a)) bearing a cost several hundred dollars higher than the Type 1 equivalents.

We would also be interested in understanding historic claims data that might support this variation in premium pricing taking into account relevant metrics including the significant number of rental transactions engaged in by our members with hundreds, if not thousands of drivers annually and the number of CTP claims made, or perhaps more importantly, claims accepted and damages paid and the quantum of compensation and compare or contrast this with the Type 1 equivalent data.

Further, assuming other criteria remain the same (eg basis on which CTP Scheme operates and vehicle type), we also have difficulty understanding how this risk may vary so markedly between metro-locations between the states or territories as to warrant significant variation in CTP premium for rental industry participants. As a means of illustrating this, we have been provided and aggregated feedback from one of our rental participant members on the costs that it would incur to register and CTP insure a standard passenger vehicle (eg a Toyota Camry or similar-make of passenger vehicle with 5 seats including driver) to be used in a metro location for 12 months in each State, NT and ACT:

STATE / TERRITORY	CTP (+ related charges)	REGO (+ related charges)	TOTAL
ACT	\$ 1 469.10*	\$ 511.30	\$ 1 980.40
NT	\$ 1 529.15	\$ 159.00	\$ 1 688.15
NSW	\$ 1 169.09* (1)	\$ 519.00	\$ 1 688.09 (1)
QLD	\$ 641.20*	\$ 552.90	\$ 1 194.10
SA	\$ 729.00	\$ 404.00	\$ 1 133.00
TAS	\$ 822.00	\$ 254.08	\$ 1 076.08
VIC	\$ 783.20	\$ 277.70	\$ 1 060.90
WA	\$ 394.90*	\$ 326.45	\$ 721.35
	(* primarily fault-based CTP Schemes) (1)The CTP has been based assuming the rental provider has a large fleet. We understand for providers with smaller fleets the CTP premium may be even higher (eg \$1762.00)		(1) The calculation has been based using the CTP for a rental provider of a large fleet. For providers of smaller fleet the total cost would be higher (eg \$2 281).

Based on this data, some general observations are that while NSW would not appear to be the most expensive jurisdiction⁴, it would nevertheless appear to be one of the most expensive. And CTP cost appears to be a key reason. The approach to CTP (eg no-fault vs fault-based) would not appear to justify variation in quantum between the states / territories including for NSW.

⁴ Though for providers of smaller rental fleets that do not have access to CTP premium pricing discount because of smaller volumes it may be that NSW would be the most expensive.

We would be happy to explore this with our Members to obtain further data to assist your Government. We would also be happy to provide further detail on the process and consequently indirect administrative and labour costs for our Members to CTP insure and register vehicles where our Members operate in more than one state or territory.

Conclusion

AFLA shares the objectives of the NSW Government; namely best-practice regulation making and red-tape reduction. In short, developing and implementing laws designed to achieve critical public policy objectives in a manner that enhances innovation and effectively and efficiently targets and addresses the consumer risk or market failure with the attendant resource and cost savings.

AFLA also supports a CTP Scheme that is sustainable, affordable and efficient designed to provide an accessible, timely and efficient means for persons seriously injured by road-vehicle use to be reasonably compensated while minimising fraud and exaggerated damage claims.

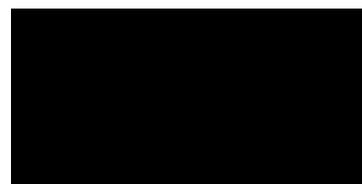
AFLA supports funding of the CTP Scheme by road-users and on occasions vehicle owners or operators may have the overall responsibility to meet those costs. AFLA also recognises that cross-subsidisation of premiums may be required given variation in risk (including between drivers based on age). However, where the basis for cross-subsidisation between Categories and consequently CTP premium is not clearly apparent or evidence-based (eg between a rental passenger vehicle and a car-sharing vehicle or business use multiple driver vehicle) AFLA questions the justification.

In the absence of justification, AFLA recommends downward pressure on the CTP Premiums charged to rental industry participants in NSW with a view to parity across equivalent Categories of risk and across jurisdictions.

AFLA would appreciate working with the Government in NSW and across Australia, to better understand the basis for variation in the cost to CTP insure and register passenger vehicles, in particular, where those vehicles are used for rental purposes. And to assist work with Governments to achieve a less piecemeal and more harmonised process of vehicle CTP and registration for AFLA Members that operate across borders to reduce red-tape and consequently cost; to the overall benefit of end-user consumers. We will be similarly writing to your interstate ministerial-equivalents and opportunities to raise this issue for collaborative consideration provided through the COAG process in this regard.

We would happy to provide additional information or clarify our feedback, as required. Please feel free to contact me either through [REDACTED] or [REDACTED].

Kind regards



HELEN GORDON
Executive Officer

Attachment:
1. AFLA Members

AFLA MEMBER COMPANIES

Alphabet Australia

Custom Fleet

East Coast Car Rentals

Europcar Australia & NZ

Fleetcare

FleetPartners/FleetPlus

Hertz

LeasePlan Australia

McMillan Shakespeare Group

NLC

ORIX Australia

QFleet

Selectus

sgfleet

smartleasing

StateFleet

Summit Fleet Leasing & Management

Thrifty Australia & NZ

Toyota Fleet Management