Motor Accident Insurance Commission (MAIC)

Discussion paper

2023 Review of Queensland's Compulsory Third Party (CTP) insurance scheme

March 2023

CONTENTS

1.0

REASONS FOR THE REVIEW

Queensland road users are protected by the most affordable Compulsory Third Party insurance scheme in mainland Australia, and one that delivers fair and timely compensation and rehabilitation support to people injured in road crashes through no fault of their own.

While the scheme continues to perform well and in a stable manner, regular review is warranted to preserve the core elements of affordability and fairness and to identify opportunities for further improvement.

The Queensland Compulsory Third Party (CTP) insurance scheme plays an important role in delivering compensation benefits for people who are injured in motor vehicle accidents through the fault of another person, while also offering unlimited legal liability protection to the 4.68 million registered vehicle owners in Queensland.

The scheme receives over $1.7 billion in gross premiums and levies each year and outstanding claims liability estimates across the four licensed insurers are in excess of $3 billion. On average, 7,500 claims are brought against the scheme each year, enabling injured people to seek fair and timely common law compensation for their injuries and providing early access to rehabilitation and treatment to aid their recovery.

The Motor Accident Insurance Commission (MAIC) has regulatory oversight of this important scheme. One of MAIC's many functions is to keep the statutory insurance scheme generally under review and to make recommendations for its amendment and improvement.

The scheme was last reviewed by MAIC in 2016 and actions taken as a result of the 2016 scheme review have helped keep the cost of CTP insurance affordable for the average motorist. However, a lack of competition between insurers in the setting of premiums (a key objective of the scheme) remains an ongoing challenge.

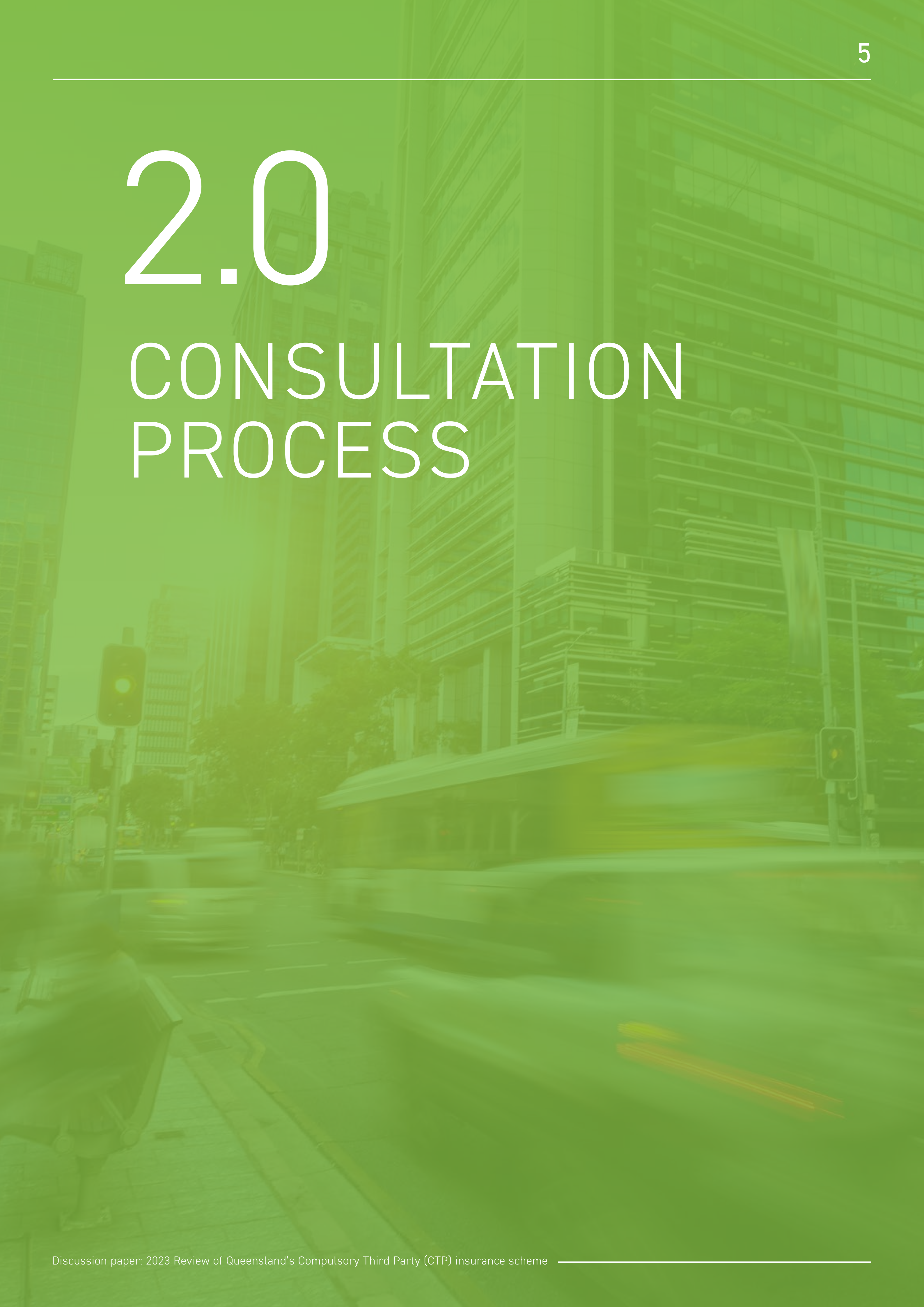
While the scheme remains profitable for licensed insurers at a whole-of-scheme level, the variance in individual insurer profitability is bringing the stability and sustainability of the scheme into question.

It is therefore timely and appropriate to conduct a 2023 Scheme Review to explore whether there are opportunities to further improve the performance of the Queensland CTP scheme.

The Queensland Government is committed to making sure premiums remain affordable for motor vehicle owners and access to common law damages is preserved for injured road users.

As such, this review will be focused on identifying opportunities to preserve and improve Queensland's position as the most affordable mainland CTP scheme by considering questions around aspects of scheme performance that can be improved. The review will not consider any changes to aspects of the scheme that are working well, including the premium setting process or compensation benefits for injured people.

This discussion paper includes a number of key questions addressing various issues raised in the paper. MAIC encourages you to have your say and let us know how we can ensure a stable and sustainable CTP scheme that is effective and delivers affordable premiums for motorists.



2.0

CONSULTATION PROCESS

2.1 Purpose of the discussion paper

The purpose of this discussion paper is to facilitate consultation with key stakeholders and the wider community on whether Queensland's CTP scheme is meeting its objectives or whether reforms to the scheme are required.

We have included a number of key questions addressing the various issues raised in the paper. We encourage you to respond to all of these questions so that your input directly feeds into the government's consideration of the scenarios and the evaluation of any potential changes to the scheme. We would also appreciate any information or evidence you can provide that might assist us in understanding and analysing the issues that have been identified.

The views expressed in this discussion paper are not government policy and no position has been reached on whether changes should be made to the scheme. The information presented is designed to generate discussion and seek feedback from key stakeholders who would be impacted by any potential changes, as well as the wider community. Such feedback is essential to inform the government's consideration of changes to the scheme.

2.2 How to have your say

Your feedback on this discussion paper is invited. All submissions must be in writing. Ideally, we encourage you to respond to all of the questions posed, where possible. Please send your written submissions to:

Email: Consultation@maic.qld.gov.au

Post: Motor Accident Insurance Commission
GPO Box 2203
BRISBANE QLD 4001

Submissions will be received until **5pm on Friday 21 April 2023. Electronic submissions are preferred.**

All written submissions will be published on the MAIC website within two weeks of the closing date for submissions. If you do not want your submission published and would prefer all or part of your feedback to remain confidential, please indicate this in your submission. Submissions not marked as confidential may be published in full or quoted in public documents or may be available to applicants under the *Right to Information Act 2009*.

Personal Information Collection Notice

MAIC collects personal information via the submissions received for the purposes of informing the Queensland Government's consideration of whether there is a need to reform Queensland's CTP scheme, and if so, to what extent.

If you respond to this discussion paper and provide personal information to us, it may be used for these purposes. We may share your personal information with other government agencies for these purposes.

Your personal information will not otherwise be used or disclosed without your consent unless the use or disclosure is authorised or required by law, including but not limited to disclosure under the *Right to Information Act 2009*. Your personal information will be handled in accordance with the *Information Privacy Act 2009*.

For further information, please call MAIC on 1800 287 753 or email consultation@maic.qld.gov.au.

2.3 What happens next

MAIC will review the feedback received during the consultation process. The information provided through this consultation process will be used to inform the Queensland Government's consideration of whether there is a need to reform Queensland's CTP scheme, and if so, to what extent. Further consultation (either broad or targeted) may be necessary, depending on the level of complexity or the scope of any proposed changes to the scheme.

3.0

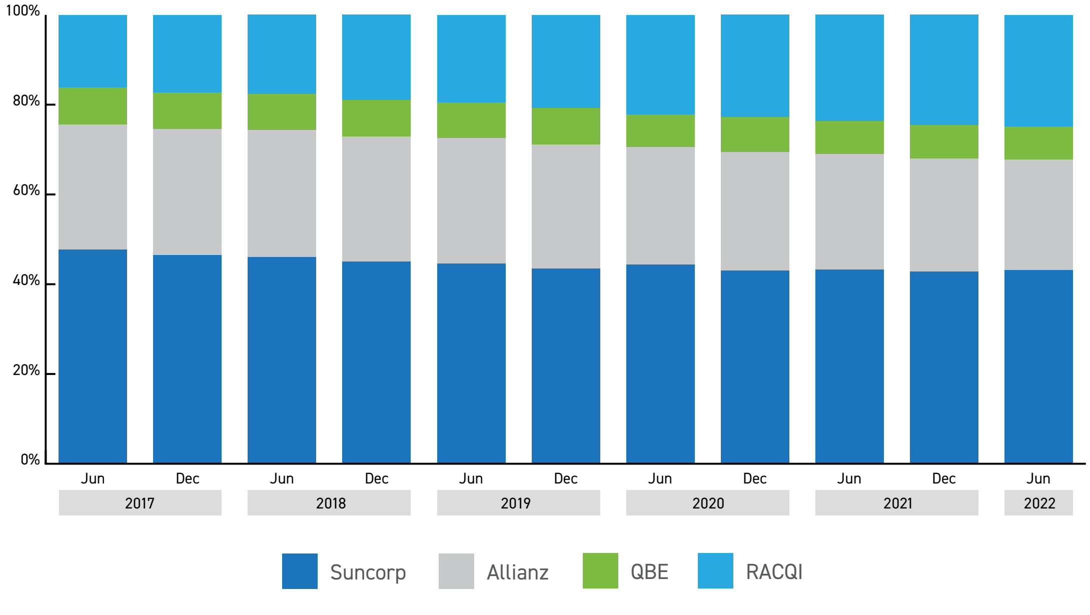
OVERVIEW OF CURRENT QUEENSLAND CTP SCHEME

3.1 Introduction

CTP personal injury schemes operate in all states and territories of Australia, although they vary extensively in terms of their underwriting model, design, coverage, delivery mechanisms and extent of benefits payable to injured claimants. All of these design features impact the level of premium payable. Queensland is one of four Australian jurisdictions that have a privately underwritten CTP insurance scheme (along with New South Wales, the Australian Capital Territory and South Australia).

Currently, four insurers are licensed to underwrite Queensland CTP insurance policies – AAI Limited (trading as Suncorp), Allianz Australia Insurance Limited, QBE Insurance (Australia) Limited and RACQ Insurance Limited (trading as RACQ Insurance). The following chart (Chart 1) depicts market share by insurer over the last six years (as at July 2022).

Chart 1 – Market Share 3 Month Rolling Average

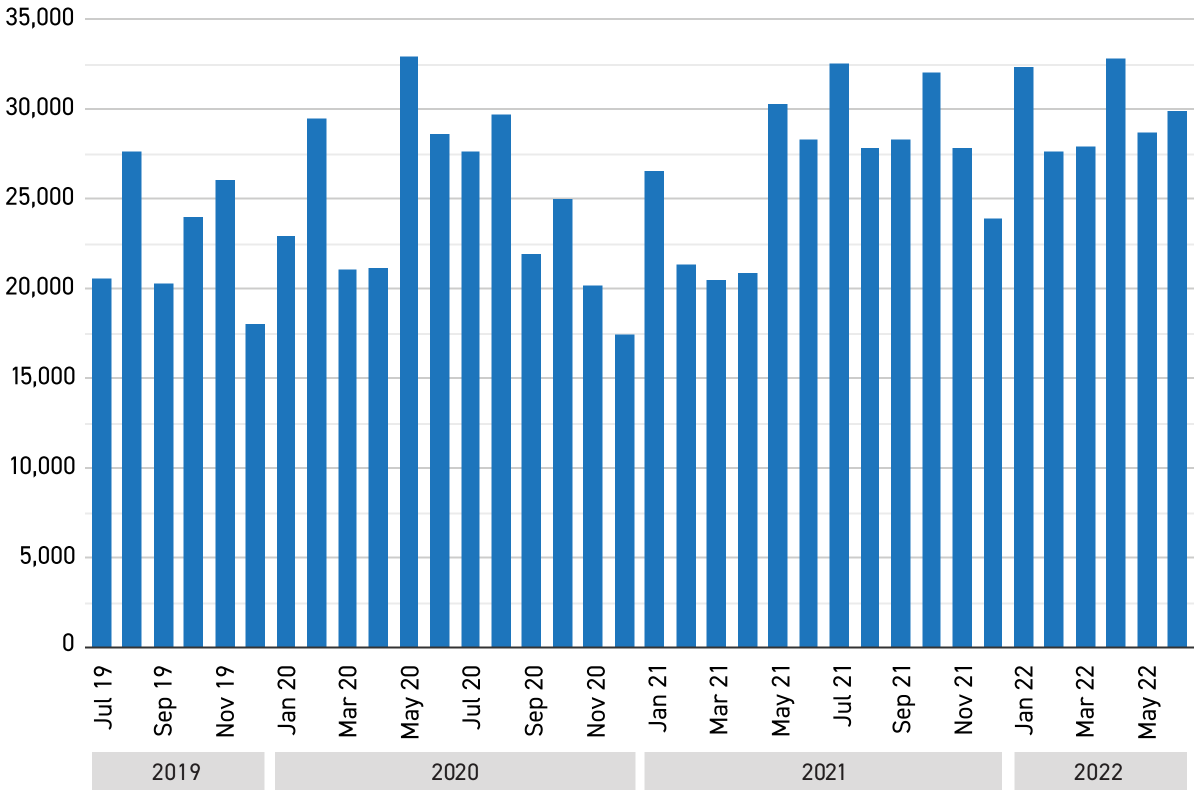


Motorists nominate their preferred CTP insurer at the time of vehicle registration. Motorists may nominate to switch insurer at any time while the vehicle is currently registered, with the change to take effect from the date of the next registration renewal.

The latest market research commissioned by MAIC shows the most common reasons for not switching insurer, as selected by motorists, include never having thought of it and it not being a priority. This limited switching activity may also correlate with the lack of price competition in the CTP scheme, along with the discontinuation by some insurers to offer other incentives to attract CTP business (such as membership discounts or other benefits). This suggests that despite motorist awareness of the ability and process to change CTP insurers, there is little desire or incentive for them to do so.

MAIC data indicates that while there has been a general upward trend in switching insurer over the last few years, during the 2021 calendar year more than 90% of policy renewals were still with the same insurer. On average, since the beginning of 2019, only 0.58% of motorists switch insurer each month. The following chart (Chart 2) shows the profile of switching between insurers each month.

Chart 2 – Profile of switching between insurers each month



Note: as at June 2022.

3.2 Coverage

The CTP insurance scheme in Queensland is governed by the *Motor Accident Insurance Act 1994* (MAI Act) and regulated by MAIC. In Queensland, as in all states and territories, the purchase of CTP insurance is compulsory and a condition of vehicle registration. It provides motor vehicle owners (and anyone who drives their registered vehicle) with an insurance policy that covers their unlimited liability for personal injury caused by, through or in connection with the use of the insured motor vehicle.

Queensland operates a common law 'fault' based CTP insurance scheme, which requires an injured person to establish negligence or fault against another party in order to access compensation entitlements. The scheme supports early access to treatment and rehabilitation to assist injured people in their recovery from the effects of their injuries.

The current scheme allows the participation of private insurers, and as such, it is the licensed insurers that carry the risk for policies issued. However, the Nominal Defendant, as a government instrumentality, is the insurer of last resort, carrying the risk for unidentified and uninsured (unregistered) vehicles, as well as the costs associated with claims should an insurer become insolvent.

Since 1 July 2016, Queensland's CTP scheme has been complimented by the National Injury Insurance Scheme, Queensland (NIISQ), a no-fault scheme that provides lifetime treatment care and support benefits to people who suffer a serious eligible personal injury. The NIISQ is underwritten by government and is funded by a levy included in CTP insurance premiums.

3.3 Operation

Since 1 October 2000, the scheme has operated a Vehicle Class Filing Model whereby the licensed insurers determine and file their premiums for each of the 25 vehicle classes every three months, within a regulated floor and ceiling premium range set by MAIC.

The setting of this premium range is informed by actuarial analysis and other factors, intended to ensure premiums are sufficient to meet the cost of compensation claims but not so excessive as to become a source of budget stress for motorists. The primary underlying factors driving the assessment include forecast claims frequency, claim size and key economic assumptions (including wage inflation and the discount rate). In addition to the base premium, allowances are made for the costs incurred by insurers to administer and acquire CTP business, manage claims and reinsure their risks. A reasonable profit margin of eight per cent is also included, intended to compensate insurers for the capital provided and the risk that actual claims costs and expenses may be different to that assumed in premiums, given the long-tail nature of CTP injury claims.

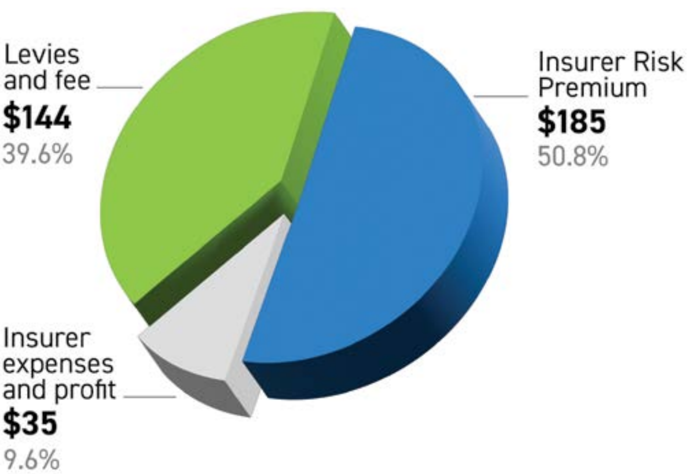
Queensland's scheme is based on a 'community rated' philosophy, whereby all owners of a particular class of vehicle pay the same premium based on the collective claims experience of the class, regardless of their individual risk profile (e.g. driver's age, driving record or age of vehicle). Community rated schemes provide equality and affordability for the average motorist, while also spreading the risk exposure for insurers across each vehicle class. All other states and territories adopt a community rating philosophy, apart from NSW which adopts a hybrid model where premiums are based partly on community rating and partly on individual risk factors.

CTP insurance premiums are currently collected by the Department of Transport and Main Roads (DTMR) through vehicle registration renewal notices and distributed to the scheme's licensed insurers. This efficient system of premium collection minimises administration costs within the scheme and only requires one convenient transaction by motorists for both registration and CTP insurance.

The current total Class 1 annual CTP premium as at 1 July 2022 is $364 (inclusive of CTP scheme levies and GST). The various premium components are shown in Chart 3 below.

Chart 3 shows that of the total figure, around 51 per cent goes to insurers to cover the expected cost of claims and 10 per cent covers insurer expenses and profit margin. The remaining 40 per cent is applied to scheme levies (Hospital and Emergency Services levy, Statutory Insurance Scheme levy, the Nominal Defendant levy, and the NIISQ levy), as well as an administration fee for DTMR's collection and distribution of the premium to insurers via the registration process.

Chart 3 – 1 July 2022 Premium Breakdown



3.4 Previous reviews

Queensland's CTP scheme has been the subject of several reviews during its 86 years of operation. Given CTP is a mandatory insurance purchase, affordability and price competition have been the subject of a number of these reviews.

Following a major review of the scheme in 1999, key reforms were implemented including the introduction of an Affordability Index and the Vehicle Class Filing Model which required insurers to file premiums quarterly within a floor and ceiling for each vehicle class set by MAIC. The process for changing insurers was also made more flexible.

MAIC conducted a further review in 2010 aimed at reducing delivery costs and promoting price competition, which resulted in a ban on the payment of commissions and other inducements by insurers to intermediaries (such as motor dealers) for directing CTP. This change was complemented by other initiatives aimed at encouraging consumer choice.

The last scheme review in 2016 focused on affordability, efficiency and identifying sustainable savings to offset the cost to motorists of introducing the new NIISQ. The key recommendation of the Review Committee was that MAIC take urgent action to address the issue of consistently high insurer profits in the scheme. As a result, MAIC reduced the ceiling margin allowance for insurers to reduce excess insurer profits and promote competition in the market.

4.0

ISSUES AND OPPORTUNITIES FOR IMPROVEMENT

Queensland's CTP scheme is generally regarded as being stable, fair and affordable. However, it is fundamental that the scheme is subject to a regular process of review to ensure it continues to meet the needs of all Queenslanders. Any changes to the scheme need to target clearly identified problems or areas where there is scope for improvement.

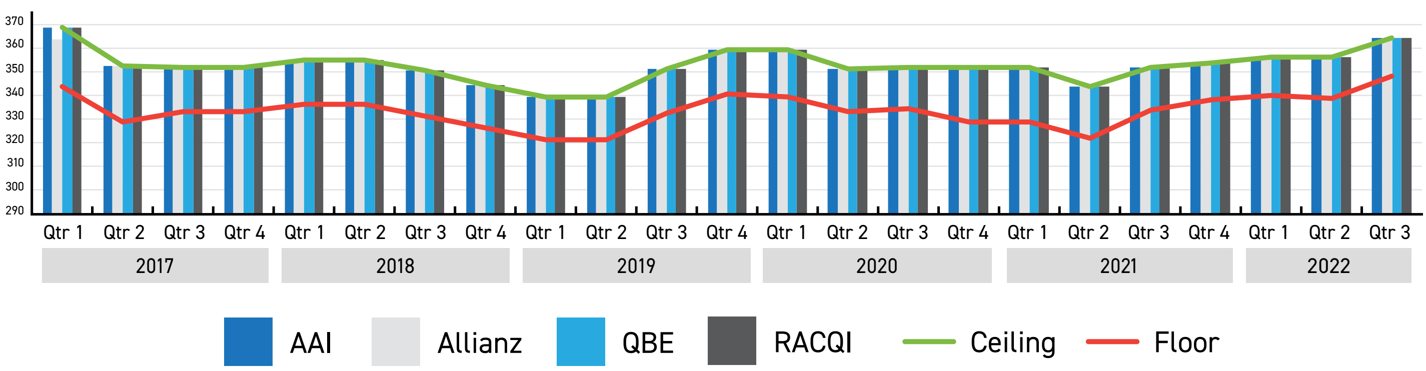
4.1 Lack of price competition

One of the key objectives underpinning the design of the current scheme is to stimulate insurer premium competition with the aim of delivering affordable premiums for the average motorist.

Despite the opportunity for insurers to compete within a premium band (a ceiling and floor price range), the overall experience for the majority of motor vehicle owners with a vehicle registered in Class 1 is that insurers consistently file at or close to the regulated ceiling price set by MAIC. Arguably, this suggests the benefit of competition in a scheme underwritten by private insurers is not visible to the majority of Queenslanders.

The issue of insurer price competition was a key focus of the 2016 Review. At that time, it was noted that competition was not working as intended and several actions were taken by MAIC to enhance the scheme, address persistently high insurer profits and generate greater competition. MAIC premium filing data indicates that despite the action taken, all insurers have filed premiums at the ceiling for Class 1 vehicles for the last 23 filing quarters (since 1 April 2017). An assessment of the Class 1 premium over the last six years since the 2016 Review is provided in Chart 4 below. The chart shows that premiums have remained stable, reflecting good scheme experience, the effect of prior scheme reviews and reforms and good scheme management by MAIC.

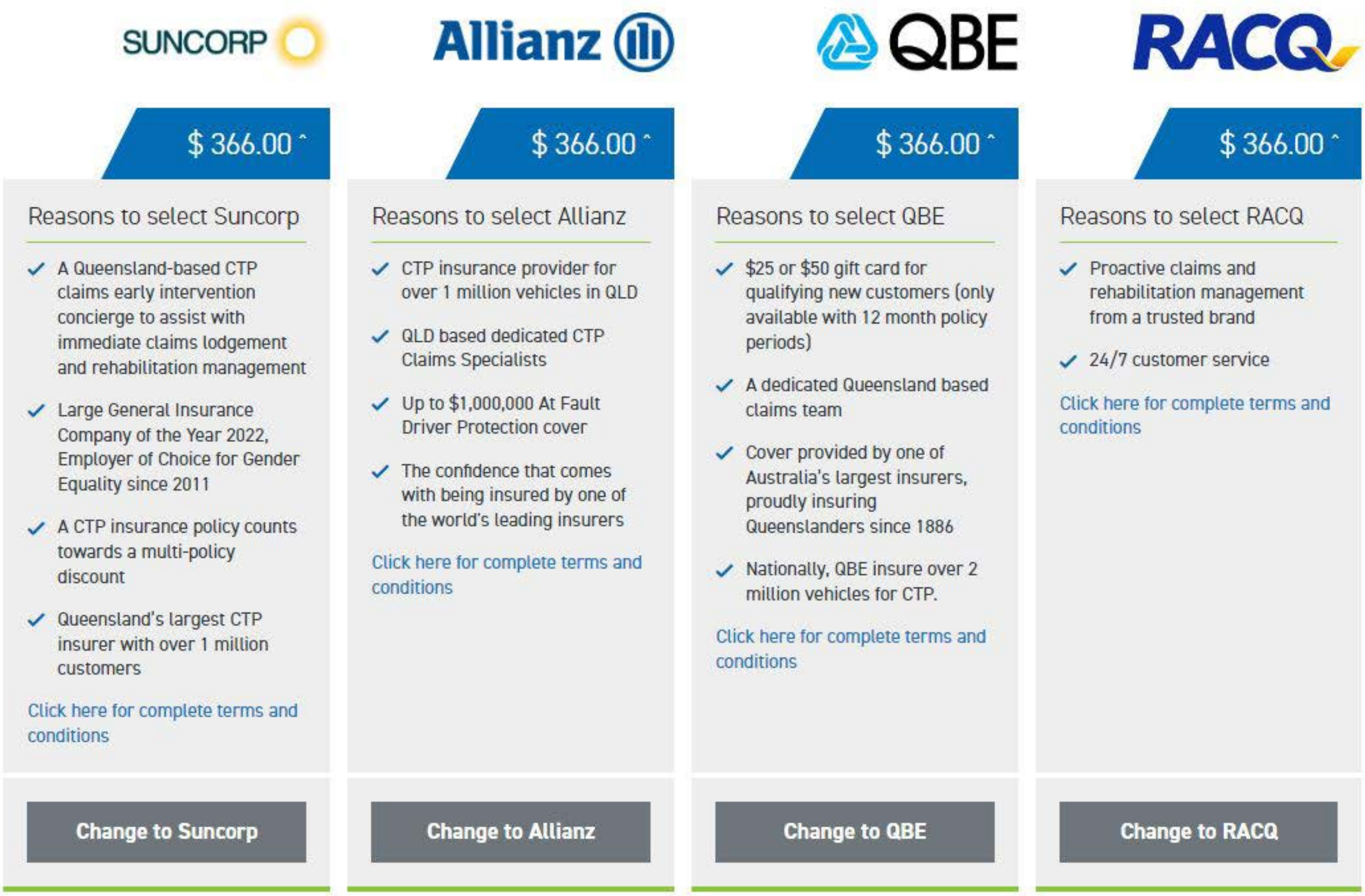
Chart 4 – Premium filing



It is recognised that in privately underwritten schemes competition can occur in a number of other ways, such as insurers offering incentives to attract and retain CTP business. This includes multi-policy discounts, discounts on memberships and related products and monetary incentives. However, we have seen a decline in the offering of such incentives by licensed insurers in Queensland's CTP scheme in recent years. A comparison of the current insurer offerings, available on MAIC's website, is shown in Chart 5 below.

This ongoing lack of price competition between the insurers indicates that the key objective underlying the privately underwritten model is unlikely to be realised. In this context, there is merit in exploring whether scheme design changes may generate outcomes more consistent with the objectives of the scheme.

Chart 5 – Comparison of insurer offerings



^ Premium rates include CTP scheme levies and GST

4.2 Variance in insurer profitability

In a privately-underwritten scheme where CTP is a mandatory insurance purchase for motorists, it is important to ensure that premiums remain as affordable as possible while still enabling a fair and reasonable profit to be delivered to insurers who bear the financial risk of paying claims. Striking the right balance between these two principles is important to ensure the long-term stability and sustainability of the scheme.

The long-tail nature of CTP claims mean that it can take many years for claims to be received and finalised in order to assess insurer profit. The latest annual Retrospective Profit Study conducted by MAIC's consulting actuary, Taylor Fry, shows that the average insurer profit margin over the past eight years has been 20 per cent which is well above the 8 per cent profit margin assumed by MAIC in setting the ceiling price.

While Queensland's CTP scheme remains profitable at an overall level, individual insurer profitability varies. This variation in profitability may be due to a range of factors such as differences in business plans, customer acquisition strategies and operational performance between the licensed insurers. It is consistent with a competitive market and on its own, is not evidence of an inherent flaw within the design of the current scheme.

However, the low profitability of some insurers presents a challenge to the stability and sustainability of the CTP scheme. If profits are negatively disproportionate to the risks that an insurer bears, they may elect to exit the market. Conversely, enabling greater insurer profit by raising the ceiling premium would come at the detriment of motorists, adding to existing cost of living pressures.

Ultimately even if higher profitability could be achieved to ensure the ongoing participation of the licensed insurers in the scheme, there is no evidence that this would lead to more competitive premiums for motor vehicle owners.

5.0 FOCUS OF THE REVIEW

Consistent with MAIC's legislated function of keeping the scheme under review and making recommendations for improvement to the government, MAIC has been tasked with examining whether the current scheme is meeting its key objectives or whether there is a better way to deliver affordable premiums for Queensland motorists and protect the long-term stability and sustainability of this important scheme.

This review will be focused on addressing the issues and opportunities for scheme improvement outlined above. To achieve this, the discussion paper outlines three scenarios for consideration by key stakeholders and the wider community:

Scenario 1: Maintain status quo

Scenario 2: Retain existing privately underwritten model with scheme design changes

Scenario 3: Transition to a public underwriting model

The information presented is designed to generate discussion and seek feedback from key scheme stakeholders and the wider community. No position has been reached on whether changes should be made to the scheme and none of the scenarios presented should be considered government policy.

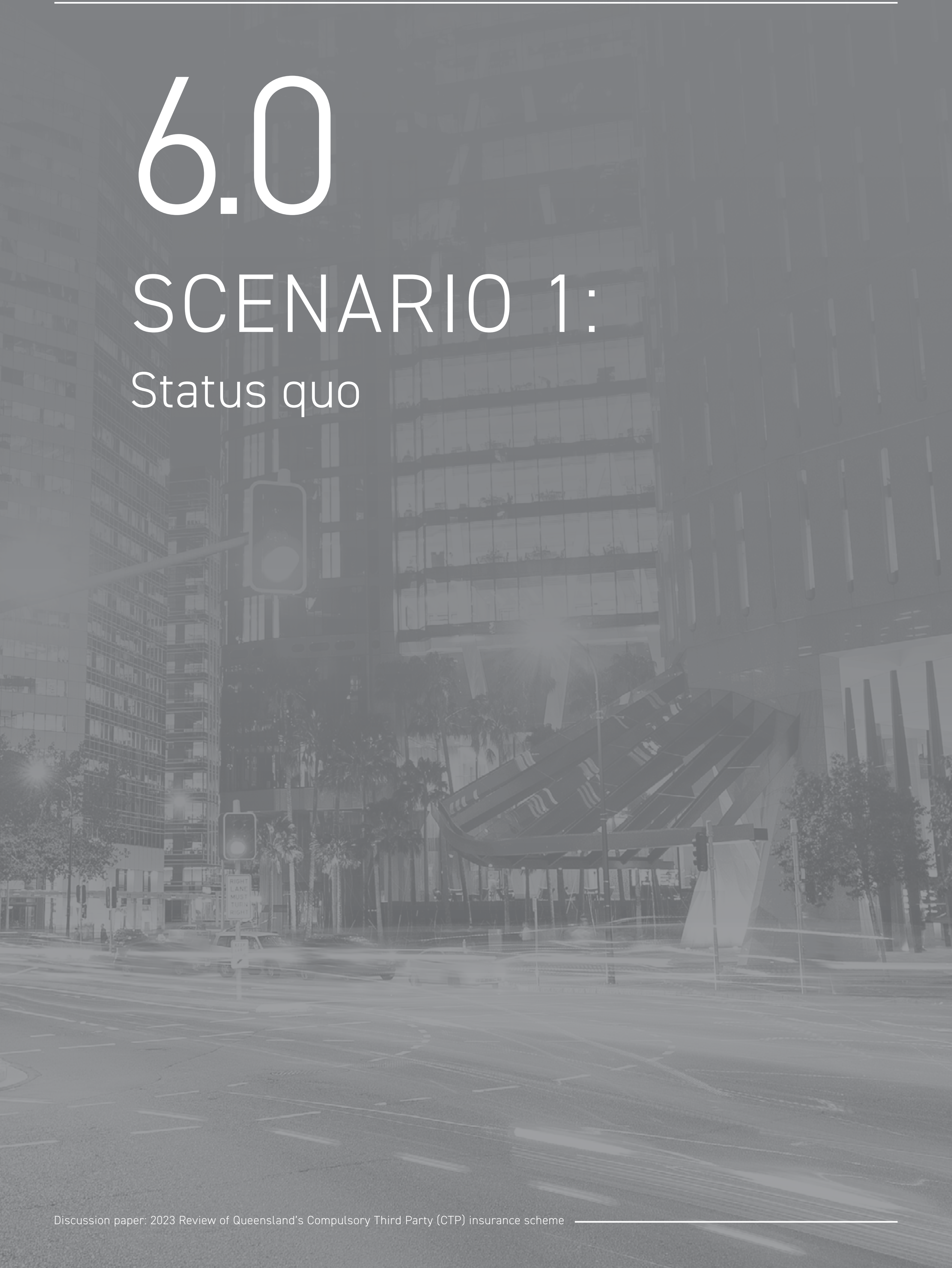
This review will not include:

Compensation benefits

The Queensland CTP scheme is seen as operating in a fair manner, evidenced by very few complaints from injured people, very low litigation rates, stable claims cost and generally positive claimant satisfaction with the scheme. As such, no changes to existing compensation benefits are being explored.

Premium setting process

While the review will focus on identifying opportunities to ensure premiums remain affordable for motorists, there is no substantive evidence of any inherent issues with the premium setting process in terms of the Vehicle Class Filing system or MAIC role in setting premium limits on a quarterly basis.



6.0

SCENARIO 1:

Status quo

This would involve no change to the current scheme underwritten by private licensed insurers.

In the absence of scheme design change or legislative reform, it is anticipated that the ongoing lack of price competition will continue into the future. MAIC would continue to regulate the floor and ceiling prices, having regard to actuarial analysis and other factors. This ensures that even when insurers choose to set premiums at the maximum amount allowed, premiums remain affordable for motorists in the absence of price competition. While an object of the MAI Act is to promote competition in the setting of premiums, market research commissioned annually by MAIC has consistently found that motorists value affordability more than any other factor.

In the absence of scheme reform, it is possible that any one of the licensed insurers may elect to hand in their licence and withdraw from the scheme for any number of commercial reasons. If an insurer decided to discontinue underwriting CTP policies in Queensland, there is a legislated mechanism to manage the exit of that insurer. This has been done on several occasions since the scheme's inception as the number of insurers offering CTP insurance has fluctuated. Managing the exit of an insurer reduces choice for motorists, but can also involve disruptive and costly system changes for MAIC and DTMR.

In the absence of legislative or other changes, maintaining the status quo would require a renewed focus on process improvements, tightening of premium assumptions and ongoing collaboration with insurers to encourage continued participation in the CTP scheme and to drive efficiencies to deliver more affordable premiums.

This scenario may be insufficient to address the ongoing lack of price competition or prevent the potential withdrawal of an insurer or encourage new entrants into the Queensland CTP market. Of note however is the fact that Queensland CTP premiums for owners of Class 1 registered vehicles (the largest of the 25 vehicle classes) compare favourably to other jurisdictions in Australia where CTP is provided by licensed insurers.

Scenario 1 (status quo) discussion questions:

- How important is price competition to you or your organisation?
- Should promoting price competition remain a valid objective? Why/why not?
- Do you support retaining the existing scheme with no reforms? Why or why not?
- What, if any, impact would there be on you or your organisation (if applicable) if the CTP scheme remained as is?
- What material opportunities, risks or considerations, if any, do you believe need to be considered in the review of this scenario?

7.0

SCENARIO 2:

Retain the existing privately underwritten model with scheme design changes

This would involve retaining the existing privately underwritten scheme, but with some adjustments aimed at improving competition for the benefit of motorists.

There are a number of possible scheme design changes to improve price competition based on operating models currently utilised in other jurisdictions. Some of these have been outlined below. It is unclear whether, and to what extent, these models do in fact improve competition between insurers in those jurisdictions and if so, whether such models would translate effectively into the Queensland scheme.

Some scheme design scenarios have previously been analysed. For example, following the 2016 review MAIC investigated the concept of limited risk rating, whereby insurers could vary premiums based on certain risk rating factors as a way of stimulating price competition. It was concluded that while limited risk rating may create the opportunity for insurers to differentiate premiums for certain market segments, some motorists would end up paying more for CTP compared to the current community rated practice.

If any of these design changes were to be adopted, legislative reform would be required to enable MAIC to define, design, implement and apply the new model. Such changes may be complex in design and application. At this stage of the process, it is unclear if or how adoption of these various mechanisms would benefit the average motorist through lower and more affordable premiums and what the implications may be for stakeholders.

For these reasons, MAIC invites key stakeholders and the wider community to provide their feedback on the scheme design changes identified to inform the government's consideration of this scenario. While individual insurers may have views on each of the approaches below, there is also benefit in understanding whether insurers are collectively supportive of any specific scenario(s). MAIC is also interested in hearing whether there are any other ideas, or combination of ideas, that would better generate outcomes more consistent with the objectives of the scheme.

7.1 Premium Equalisation Mechanism

Overview

An approach for reforming the scheme, that could be based on the New South Wales Risk Equalisation Mechanism, may be to introduce a premium equalisation mechanism for Class 1 Vehicles and/or other Vehicle Classes.

While Queensland and New South Wales operate quite different approaches to scheme underwriting and premium setting, a premium equalisation mechanism may encourage the ongoing participation of existing insurers and attract new insurers to enter the Queensland CTP scheme.

Similar to New South Wales' Risk Equalisation Mechanism, this could involve the evaluation of risk within an insurer's portfolio and an associated redistribution of collected premiums between insurers from those with better performing portfolios to insurers with poorer quality risks.

Advantages

The potential advantage of a premium equalisation mechanism is that it could reduce the risk of an insurer attracting too many high-risk customers, thereby not generating a sufficient premium pool to meet the expected cost of claims. The overall premium pool for that Class would be unaffected, whilst preserving premium community rating and ensuring premiums remain affordable for all motorists regardless of their risk level. A premium equalisation mechanism may also be seen as having minimal impact on Queensland motorists as it operates 'behind the scenes'.

Disadvantages

The potential disadvantages with a premium equalisation mechanism includes better performing insurers having less incentive to innovate or seek to out-perform. Insurers may seek to 'game the system' in terms of risk selection or risk avoidance, resulting in the need for MAIC to establish complex Market Practice Guidelines. Additionally, the limited risk rating factors utilised in the Queensland scheme community rating model may have unintended consequences in how risks are categorised for premium adjustment purposes.

If this approach was to be adopted, legislative reform would be required to enable MAIC to design, implement and apply the equalisation mechanism. MAIC's preliminary analysis indicates this model will require extensive analysis of design options and application. The experience in New South Wales suggests implementing this reform would be complex and incur additional actuarial and administrative costs for MAIC, licensed insurers and potentially DTMR in classifying vehicles and determining the premium transfer mechanism. This cost may need to be passed on to motorists. Consultation with stakeholders with respect to practicalities and key design questions will be required to understand what a premium equalisation mechanism could look like in Queensland.

Further detail on New South Wales' Risk Equalisation Mechanism are included in the Motor Accident Guidelines Part 1 – Premium determination.

Scenario 2 (Premium Equalisation Mechanism) discussion questions:

- Do you support adoption of an insurer premium equalisation mechanism in the scheme? Why or why not?
- Do you believe that the introduction of a premium equalisation mechanism would improve insurer price competition in the scheme?
- If the government were to introduce a premium equalisation mechanism in the Queensland CTP scheme, what would this look like? In particular:
- Which vehicle classes should the mechanism apply to?
- What mechanisms would need to be established for funding deficits and returning surpluses?
- A potential model for passing the funds would be to use a clearing house. Do you agree with this model and if so, should it be revenue neutral?
- Which available rating factors should the mechanism apply across?
- What definitions of risk factors should be used?
- What rules should be implemented to govern the timing of data submissions and contributions/withdrawals from the clearing house?
- What, if any, impact would there be on you or your organisation (if applicable) if the government were to introduce a premium equalisation mechanism?
- What measures could you or your organisation adopt to offset any negative impacts?
- Does this approach carry any broader implications for insurer competition and innovation?
- What material opportunities, risks or considerations, if any, do you believe need to be considered in the review of this scenario?

7.2 Random allocation

Overview

This approach could be based on the South Australian CTP scheme model where CTP insurance policies for new vehicle registrations are randomly allocated to CTP insurers rather than selected by vehicle owners.

The allocation mechanism could operate in different ways, such as:

- Equal shares (four insurers each receiving 25%)
- Market share (an insurer with 30% market share receives 30% of new business)
- Price based (an insurer that sets lowest premiums for a quarter receives a higher share of new business)

Random allocation may extend to also include all vehicle re-registrations, including interstate transfers. While the risk profile for these customers may vary, it would reduce complexity for DTMR and others to determine whether a vehicle is being registered and meets the random allocation criteria or not. There may also be a complication where fleet operators or owners of multiple vehicles prefer to have all vehicles insured with one insurer. This would need to be incorporated into the allocation mechanism.

New vehicle sales in Queensland have been affected by supply-chain issues in recent years, but there remains around 180,000 new vehicle registrations per annum through the Dealer and Agency Interface System (DAIS). The overall vehicle population in Queensland is 4.68 million vehicles.

Advantages

The potential advantage of random allocation is that it would ensure each insurer gets an equal share of new business, distributing 'good risks' across the licensed insurers. This may be viewed as attractive for insurers seeking to enter the CTP scheme, enabling them to build a customer base of policies that are generally viewed as better quality risks.

Disadvantages

The potential disadvantage of random allocation is that Queensland motorists would lose their current ability to select their preferred CTP provider. In South Australia, this is mitigated by allowing motorists with registration terms over three months to change their CTP insurer from five days after the date of registration up until three months into the policy term.

Changes in motor dealer distribution processes were previously implemented by DTMR with MAIC support following the 2016 review. This has ensured that motorists are presented with a fair and informed choice between insurers upon purchasing a new vehicle. Mandating a random allocation would require consideration of a program to be rolled out to dealerships and validated by way of a compliance audit regime.

This reform would also present an administrative burden to government, insurers and CTP sales/distribution outlets including motor dealers and DTMR Customer Service Centres and would require legislative amendment.

Scenario 2 (Random allocation) discussion questions:

- Do you support mandating a random allocation of CTP insurer in the scheme? Why or why not?
- Do you believe that the introduction of random allocation would improve insurer price competition in the scheme?
- What, if any, impact would there be on you or your organisation (if applicable) if the government were to introduce random allocation?
- What measures could you or your organisation adopt to offset any negative impacts?
- Does this scenario carry any broader implications for insurer competition and innovation?
- What material opportunities, risks or considerations, if any, do you believe need to be considered in the review of this scenario?

7.3 Multiple licences

Currently the Queensland scheme only allows a general insurer to hold one Queensland CTP licence. An alternative approach available in New South Wales and the Australian Capital Territory allows insurers to seek licences at a brand entity level. By way of example, this approach is being utilised by Suncorp in the Australian Capital Territory CTP market where it holds three licences under its GIO, AAMI and APIA brands.

Multiple licences may enable insurers to provide a range of competitive offerings and be innovative in how they compete on price. However, a question arises as to whether that competition will in fact occur or motorists will be frustrated by having a larger number of insurers, but all offering the same premium. A further question could be asked about how competition would occur across all vehicle classes and not just to targeted vehicle owners.

It is also unclear at this stage whether this approach adds administrative cost to scheme delivery.

Scenario 2 (Multiple licences) discussion questions:

- Do you support the introduction of multiple licences for CTP insurers? Why or why not?
- Do you believe that the introduction of multiple licences for CTP insurers would improve insurer price competition in the scheme?
- What, if any, impact would there be on you or your organisation (if applicable) if the government were to introduce multiple licences for CTP insurers?
- What measures could you or your organisation adopt to offset any negative impacts?
- Does this scenario carry any broader implications for insurer competition and innovation?
- What material opportunities, risks or considerations, if any, do you believe need to be considered in the review of this scenario?

7.4 Promote active decision-making by motorist

Another potential design change based on the South Australian CTP scheme could be to remove the 'default' current insurer on the CTP insurance renewal notice to encourage vehicle owners to actively select their preferred CTP insurer at each registration renewal. This could be coupled with insurer ratings to drive choice.

Promoting active decision-making may encourage more competitive pricing between insurers. The potential disadvantage is that it may be a source of friction for motorists who would like to retain their existing insurer.

This reform could also present an administrative burden to government, insurers and DTMR Customer Service Centres and would require system amendments.

Scenario 2 (Active decision-making) discussion questions:

- Do you support the introduction of active decision-making of CTP insurer by motorists? Why or why not?
- Do you believe that the introduction of active decision-making of CTP insurer by motorists would improve price competition in the scheme?
- What, if any, impact would there be on you or your organisation (if applicable) if the government were to introduce active decision-making of CTP insurer by motorists?
- What measures could you or your organisation adopt to offset any negative impacts?
- Does this scenario carry any broader implications for insurer competition and innovation?
- What material opportunities, risks or considerations, if any, do you believe need to be considered in the review of this scenario?

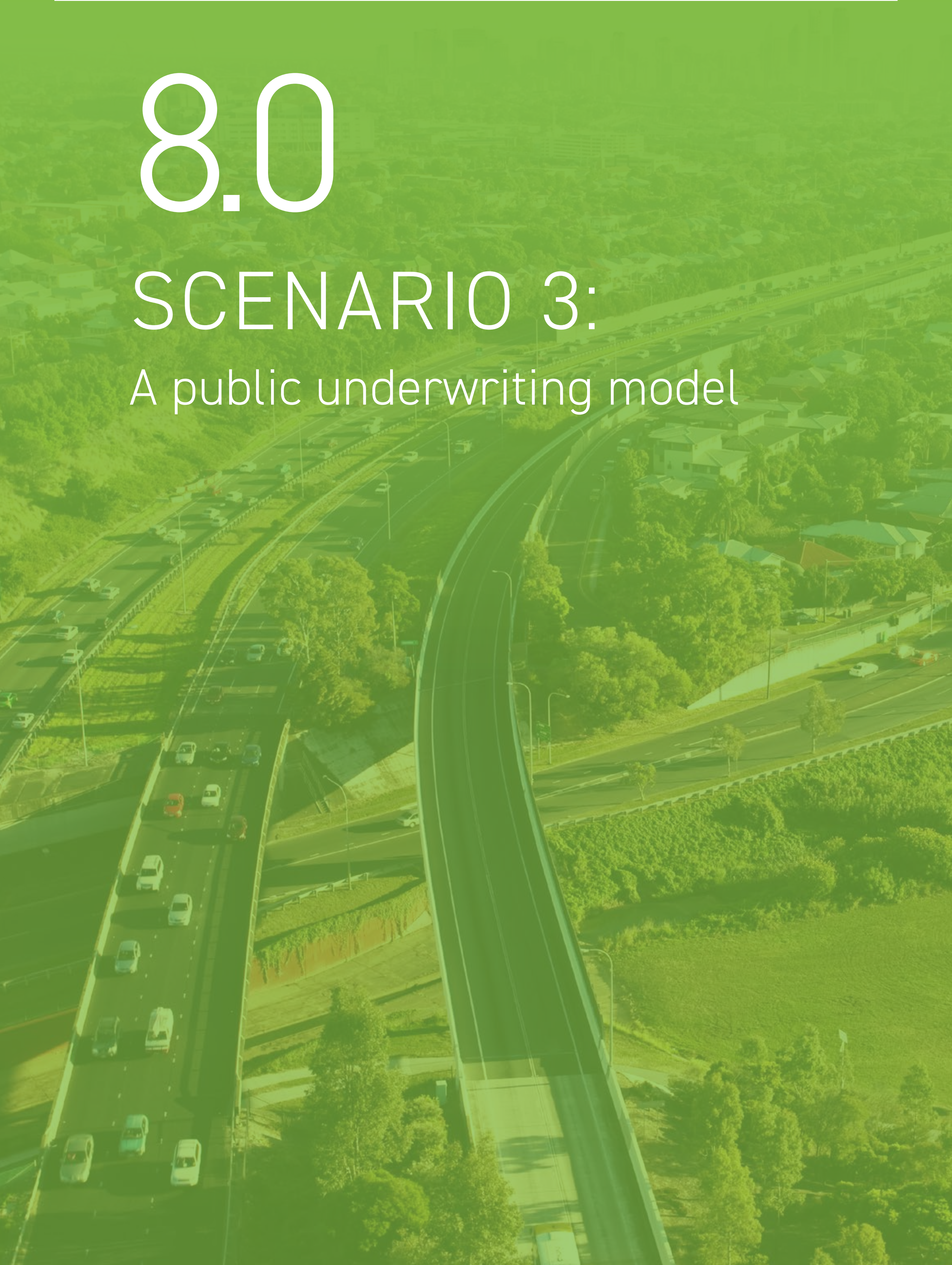
7.5 Other/Combination of scenarios

The scenarios outlined above are based on existing frameworks in other jurisdictions. If there are other scenarios, or a combination of these scenarios, that you believe would increase competition in the scheme, please outline what this is/these are, including the benefits you believe would be achieved.

8.0

SCENARIO 3:

A public underwriting model



Publicly underwritten schemes operate in Victoria, Tasmania, Western Australia and the Northern Territory.

Public underwriting was previously considered as part of the 2016 review as an alternative to the model underpinning the current scheme. While the 2016 review supported retention of the private underwriting model and did not propose fundamental scheme reform at that time, the Review Committee recommended a public underwriting model be further examined in the event of significant adverse changes in scheme circumstances. The Review Committee identified the risks that it considered would justify moving to a publicly underwritten model would be:

- where insurers were unable to deliver affordable, competitive premiums, or
- where a limited number of licensed insurers was not in the best interests of the scheme.

Preliminary analysis indicates that there are advantages as well as risks and challenges to transitioning Queensland's CTP scheme to a publicly underwritten model. Such reform would be a significant departure from the current scheme. Your feedback will help inform the government's consideration of this scenario for reform.

8.1 Overview

Under this scenario, the State would assume the role of administrator and underwriter of the CTP scheme and would become the sole provider of CTP insurance in Queensland.

The existing licensed insurers would cease underwriting new CTP insurance policies and run off claims against policies issued up to and including the date the new government CTP policies commence. The run-off of existing claims by current insurers would take several years and require MAIC to continue its regulatory supervision role in the medium term.

The Nominal Defendant would continue its function as the deemed insurer for claims involving unidentified and uninsured vehicles.

The objective of transitioning to a public underwriting model would be to create efficiencies, reduce administration costs and complexity, create more opportunity to deliver premium savings for motorists and protect the long-term stability of the CTP scheme.

8.2 Claims management

Claims management functions could be performed by an in-house claims management team, external claims management providers or a mixture of both with claims allocated based on criteria (for example claim complexity based on injury severity).

Experience of personal injury schemes in other jurisdictions that have external claims management arrangements indicates that great care and thought needs to be given to the operating model, fee structure and performance management frameworks.

Engaging external claims management providers creates the opportunity to access existing insurer claims management expertise and to encourage innovation and improvement for the benefit of injured people and the scheme.

Should the preference be for an external claims management model, consideration would need to be given towards options for IT operating systems. The existing Nominal Defendant claims management system has the capacity to be utilised in an external model.

8.3 Potential benefits

Preliminary analysis indicates there are benefits associated with transitioning the Queensland CTP scheme from private to public underwriting.

Establishing one provider of CTP insurance, aligned with the NIISQ under one entity, would be more efficient for motorists, the legal industry and injured people, especially for the seriously injured people who are currently required to navigate separate entities.

A publicly underwritten model would simplify and reduce the administrative burden on DTMR in terms of CTP premium collection. It would also provide opportunities to simplify the processes across other government agencies such as levy allocation and service delivery by Queensland Health, Queensland Ambulance Service and other Emergency Services agencies involved in responding to road trauma.

Savings made through the elimination or reduction in current premium allowances could be reinvested in road safety and road trauma management.

Publicly underwritten schemes in other jurisdictions have simplified premium setting arrangements such as an annual CPI adjustment or premium oversight body. Premium subsidies are also more flexible and can be directed to specific community sectors/cohorts (i.e. discounts for pensioners, apprentices, etc).

8.4 Challenges

Transitioning Queensland's CTP scheme to a public underwriting model would represent a major policy shift from a model which has been underwritten by private insurers since the scheme's inception in 1936. While the scheme has been stable, fair and affordable for many years, there are increasing market signals that reform may be warranted, and public underwriting is one approach worthy of further examination. However, public underwriting of CTP would have the most significant impact on the scheme's existing CTP insurers due to the loss of sales and profits, and for publicly traded companies, potentially lost business value. This could be mitigated to some extent should claims management services be performed externally by the private sector.

A key consideration is that the State would assume the underwriting and operational risk. However, under the current scheme, the government via the Nominal Defendant, is already exposed to such risk and is required to assume the liabilities of an insolvent licensed insurer(s) in the event this were to happen. The risk to the State could be minimised if strong management practices were in place and premiums continued to be set at sufficient levels to fund the cost of claims.

The effective and timely run-off of existing claims would also be of critical importance to the future financial stability of the scheme. Therefore a continuing supervisory role of current licensed insurers in the medium term would be required.

A public underwritten scheme would remove motorists' choice of insurer and forgo the possibility of future price competition but scheme experience could be improved through an active program of innovation, improvement and communication.

8.5 Timing

Should this scenario be adopted, considerable legislative change would be required. Once the legislation has commenced, there would also be a number of operational arrangements that would need to be implemented before the new scheme could take effect.

MAIC would work closely with DTMR with respect to the changes required to the Transport Registration and Integrated Licensing System (TRAILS). TRAILS is a critical system of record for CTP insurance purposes given the direct linkage to vehicle registration. TRAILS is designed to align an insurance policy record against a period of registration (whether 1, 3, 6 or 12 months).

Based on initial advice from DTMR, any scheme reform to public underwriting would need to be transitioned until existing vehicle registrations reach their next renewal date. A transition period would enable licensed insurers to adapt their businesses to the run-off of CTP policies on a more gradual basis and would also ensure TRAILS retains an accurate record of vehicle registration and insurance details. It would also allow for targeted communication to motorists through their registration renewal notice and other communication methods outlining the new CTP scheme arrangements at their next registration renewal date.

Scenario 3 (A public underwriting model) discussion questions:

- Do you support a transition to public underwriting for the scheme? Why or why not?
- What, if any, impact would there be on you or your organisation (if applicable) if the scheme were to move to a public underwriting model?
- Are there any significant economic, social or environmental impacts for you or your organisation in moving to a public underwriting scheme?
- If the scheme were to move to a public underwriting model, do you consider that there would be any implementation issues or risks for you or your organisation that need to be considered in the review of this scenario?
- If the scheme were to move to a public underwriting model, to what extent do you believe there needs to be private sector service delivery?
  - » What are your views on the claims management functions for minor claims being performed by external claims management providers?
  - » What are your views on the claims management functions for complex claims being performed by external claims management providers?
  - » What opportunities are there in an external claims management arrangement to pursue positive incentives for good claims management outcomes?
  - » What compliance costs would be involved for your organisation?
- If the scheme does move to public underwriting with external claims management, would your organisation be interested in being a claims management service provider? Why or why not?

9.0

SUMMARY OF DISCUSSION QUESTIONS

Scenario 1 – Status quo:

- How important is price competition to you or your organisation?
- Should promoting price competition remain a valid objective? Why or why not?
- Do you support retaining the existing scheme with no reforms? Why or why not?
- What, if any, impact would there be on you or your organisation (if applicable) if the CTP scheme remained as if?
- What material opportunities, risks or considerations, if any, do you believe need to be considered in the review of this scenario?

Scenario 2 - Retain the existing privately underwritten model with scheme design changes:

Premium Equalisation Mechanism:

- Do you support adoption of an insurer premium equalisation mechanism in the scheme? Why or why not?
- Do you believe that the introduction of a premium equalisation mechanism would improve insurer price competition in the scheme?
- If the government were to introduce a premium equalisation mechanism in the Queensland CTP scheme, what would this look like? In particular:
  - » Which vehicle classes should the mechanism apply to?
  - » What mechanisms would need to be established for funding deficits and returning surpluses?
  - » A potential model for passing the funds would be to use a clearing house. Do you agree with this model and if so, should it be revenue neutral?
  - » Which available rating factors should the mechanism apply across?
  - » What definitions of risk factors should be used?
  - » What rules should be implemented to govern the timing of data submissions and contributions/ withdrawals from the clearing house?
- What, if any, impact would there be on you or your organisation (if applicable) if the government were to introduce a premium equalisation mechanism?
- What measures could you or your organisation adopt to offset any negative impacts?
- Does this scenario carry any broader implications for insurer competition and innovation?
- What material opportunities, risks or considerations, if any, do you believe need to be considered in the review of this scenario?

Random allocation:

- Do you support mandating a random allocation of CTP insurer in the scheme? Why or why not?
- Do you believe that the introduction of random allocation would improve insurer price competition in the scheme?
- What, if any, impact would there be on you or your organisation (if applicable) if the government were to introduce random allocation?
- What measures could you or your organisation adopt to offset any negative impacts?
- Does this scenario carry any broader implications for insurer competition and innovation?
- What material opportunities, risks or considerations, if any, do you believe need to be considered in the review of this scenario?

Multiple licences:

- Do you support the introduction of multiple licences for CTP insurers? Why or why not?
- Do you believe that the introduction of multiple licences for CTP insurers would improve insurer price competition in the scheme?
- What, if any, impact would there be on you or your organisation (if applicable) if the government were to introduce multiple licences for CTP insurers?
- What measures could you or your organisation adopt to offset any negative impacts?
- Does this scenario carry any broader implications for insurer competition and innovation?
- What material opportunities, risks or considerations, if any, do you believe need to be considered in the review of this scenario?

Active decision-making:

- Do you support the introduction of active decision-making of CTP insurer by motorists? Why or why not?
- Do you believe that the introduction of active decision-making of CTP insurer by motorists would improve price competition in the scheme?
- What, if any, impact would there be on you or your organisation (if applicable) if the government were to introduce active decision-making of CTP insurer by motorists?
- What measures could you or your organisation adopt to offset any negative impacts?
- Does this scenario carry any broader implications for insurer competition and innovation?
- What material opportunities, risks or considerations, if any, do you believe need to be considered in the review of this scenario?

Other/Combination of scenarios:

- Are there any other scenarios, or a combination of these scenarios, that you believe would increase competition in the scheme? Please outline what this is/these are, including the benefits you believe would be achieved.

Scenario 3: A public underwriting model

- Do you support a transition to public underwriting for the scheme? Why or why not?
- What, if any, impact would there be on you or your organisation (if applicable) if the scheme were to move to a public underwriting model?
- Are there any significant economic, social or environmental impacts for your organisation in moving to a public underwriting scheme?
- If the scheme were to move to a public underwriting model, do you consider that there would be any implementation issues or risks for your organisation that need to be considered in the review of this scenario?
- If the scheme were to move to a public underwriting model, to what extent do you believe there needs to be private sector service delivery?
  - » What are your views on the claims management functions for minor claims being performed by external claims management providers?
  - » What are your views on the claims management functions for complex claims being performed by external claims management providers?
  - » What opportunities are there in an external claims management arrangement to pursue positive incentives for good claims management outcomes?
  - » What compliance costs would be involved for your organisation?
- If the scheme does move to public underwriting with external claims management, would your organisation be interested in being a claims management service provider? Why or why not?

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