



8 April 2016

Point-to-Point Review
State Insurance Regulatory Authority
Level 25, 580 George Street
Sydney NSW 2000

Email: P2Preview@sira.nsw.gov.au

Dear Sir/Madam

Review of Compulsory Third Party Motor Vehicle Insurance for Point-to-Point Transport Vehicles

The Insurance Council of Australia (ICA) welcomes the opportunity to provide feedback on the review of compulsory third party (CTP) insurance for point-to-point transport vehicles.

The ICA is the representative body of the general insurance industry in Australia. This includes the four licensed general insurers who currently underwrite the NSW CTP motor accidents compensation scheme.

The ICA is actively engaged with a number of reviews that have implications for the NSW CTP scheme. These are referenced in the Point-to-Point Transport Vehicles Discussion Paper and include the NSW Government's Options for reforming Green Slip insurance, the Independent Review of Insurer Profit and the CTP Premium System Review. Our response to this Discussion Paper is in the context of current scheme design. However, we regard our core principles to be applicable, notwithstanding potential changes to the scheme.

The Discussion Paper details a number of options by which the premium system could accommodate different types of vehicles in the point-to-point market. It notes that options presented are not exhaustive and hybrids are also possible. We have outlined some of the key features we consider necessary when pricing CTP for point-to-point transport vehicles. As options are explored in further detail, we would be happy to work with the State Insurance Regulatory Authority (SIRA) on a mechanism that would best incorporate the features we have outlined.

The ICA supports the principle of competitive neutrality, that is that like goods and services should be subject to the same regulatory requirements. This principle should be central to considerations of the most appropriate CTP option for point-to-point transport vehicles and will help to ensure an equitable playing field for traditional point-to-point transport providers and new market entrants.

Following from this principle, we support an option where ride-share providers pay the CTP premium that adequately reflects the associated risk of this service. Currently taxis have their own vehicle class, as they represent a higher risk for CTP insurance claims due to increased time spent on the road and carriage of third party passengers. This risk is reflected in their premiums.

Similar to taxis, ride-share vehicles, may present a higher risk than passenger vehicles, resulting in higher claims frequency and claims costs. For this reason the ICA has consistently called for ride-share vehicles to be separately classified¹.

A classification that encompasses both ride-share vehicles and passenger vehicles has the risk of contributing to higher premiums for the whole class, with the private vehicles subsidising the commercial use vehicles. In the aforementioned reviews, increase in premiums for Class One passenger vehicles has been identified as a concerning trend. Careful consideration must be given to any pricing arrangement for ride-share vehicles, and point-to-point transport vehicles more broadly, that would place upward pressure on premiums for Class One passenger vehicles.

One of the advantages of separate classification is that the class can remain fully funded as premium remains aligned to risk. An additional advantage is that separate classification can provide useful insights into the claims trends for ride-share vehicles. We consider a mechanism to capture data on ride-share vehicles a key feature of any model that seeks to appropriately align premium with risk. Over time, data may show that ride-share vehicles tend towards a higher or lower claims frequency than initially anticipated. This would allow the premium to be adjusted accordingly. This is the method the ACT Government has adopted, it is welcomed by the ICA and we support harmonisation with their approach².

The Discussion Paper notes that one of the challenges of a new vehicle class for ride-share vehicles is identifying, and therefore appropriately pricing, vehicles used mainly in a commercial capacity and vehicles used mainly for private purposes. Establishing a CTP premium for point-to-point transport vehicles that is based on usage may address this issue. For example, all point-to-point transport vehicles could pay a base CTP premium similar to the Class One passenger vehicle. Time spent on the road in the point-to-point capacity would be measured and an additional premium charged. This could be a fixed amount per trip, a charge per kilometre or it could be adjusted according to factors such as time of day or location. Premium could be collected on a periodic basis from the taxi industry or the ride-share operator. Both the base premium and the variable premium would be paid to the CTP insurer.

We note that such an arrangement would require legislative changes to allow for retrospective pricing and payment of additional premiums. It also requires collecting information on driver usage from the operators of point-to-point transport vehicles. Our members would be willing to work with SIRA to explore how innovative means to apply CTP premiums, such as detailed above, could be implemented.

Another challenge identified by the Discussion Paper is the compliance and enforcement needed to ensure ride-share drivers declare their status to RMS at registration. As we submitted to the ACT Government's Taxi Industry Innovation Review, individuals who intend to use their car for ride-share purposes should be required to disclose this in order to be

¹ Insurance Council of Australia, *ICA submission to the Point to Point Transport Taskforce Discussion Paper*, 25 September 2015

² Insurance Council of Australia, "ICA welcomes certainty provided by legalising ride-hail services in the ACT", *Media Release*, September 30 2015

appropriately classified.³ We suggest that the ride-share operator requires proof of this registration from their drivers before allowing them to participate in the service. A two-pronged approach from both RMS and the ride-share operator should help to minimise non-compliance.

Further modelling and analysis will be needed in order to fully ascertain the most appropriate CTP arrangements for point-to-point transport vehicles, particularly within the context of potential changes to the NSW CTP scheme. We look forward to working with SIRA on this matter to ensure any revised premium system appropriately accommodates the point-to-point transport market.

If you would like to discuss this submission further, please contact Vicki Mullen, ICA's General Manager, Consumer Relations and Market Development on 02 9253 5120 or vmullen@insurancecouncil.com.au

Yours sincerely



Robert Whelan
Executive Director and CEO

³ Insurance Council of Australia, *ICA submission to the ACT Taxi Industry Innovation Review*, 29 June 2015