



**Investigation into the Motor Accidents Insurance
Board's Pricing Policies**

Final Report

July 2013

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GLOSSARY

Term	Meaning within the context of this Report
ABS	Australian Bureau of Statistics
AEIFRS	Australian Equivalent of International Financial Reporting Standards
APRA	Australian Prudential Regulatory Authority
AWE	average weekly earnings
AWOTE	Average Weekly Ordinary Time Earnings (index prepared by the ABS)
cc	cubic centimetre – measure of motorcycle engine capacity
CTP	compulsory third party
DAM	decreasing adjustment mechanism
DIER	Department of Infrastructure, Energy and Resources
FWA	Fair Work Australia
GBE	Government Business Enterprise (required to comply with the provisions of the GBE Act)
GBE Act	<i>Government Business Enterprises Act 1995</i>
GFC	Global Financial Crisis
GPOC	Government Prices Oversight Commission
GPO Act	<i>Government Prices Oversight Act 1995</i>
GST	Goods and Services Tax
GTM	gross trailer mass
IBNR	incurred but not reported (claims)
ICWA	Insurance Commission of Western Australia
IPMF	Injury Prevention and Management Foundation
MA	motor accident
MA Act	<i>Motor Accidents (Liabilities and Compensation) Act 1973</i>
MAA	Motor Accidents Authority (New South Wales)
MAIB	Motor Accidents Insurance Board
MAIB submission	the MAIB's preliminary submission of 21 February 2013
NCP	National Competition Policy
NHVR	National Heavy Vehicle Regulator
NIIS	National Injury Insurance Scheme
NRMA	National Roads and Motorists Association
Pricing period	the period covered by the premium order to be made following the Minister's approval of the recommendations contained in this report
PTD	paid to date
OSL	outstanding loss
RSTF	Road Safety Taskforce

Term	Meaning within the context of this Report
RTE	Registered Tax Entity
Solvency	Assets less dividend payable divided by outstanding claims liabilities
Superimposed inflation	Growth in claims costs above AWOTE
TAC	Transport Accident Commission (Victoria)
TIO	Territory Insurance Office (Northern Territory)
TMC	Tasmanian Motorcycle Council
TNTS	Package of tax reform introduced as a result of the implementation of <i>The New Tax System (Goods and Services Tax) Act (Cwlth) 1999</i>

EXECUTIVE SUMMARY

In December 2012, the Minister for Finance requested the Regulator to conduct an investigation into the Motor Accidents Insurance Board's (MAIB) pricing policies with respect to motor accident (personal injury) insurance and to recommend maximum premiums for the four years from 1 December 2013. This is the sixth pricing investigation into the MAIB's pricing policies; five having been undertaken by the former Government Prices Oversight Commission (Commission), which the Regulator has superseded.¹

The MAIB provides a compulsory third party scheme of no-fault and common law benefits to persons injured as a result of motor accidents.

The no-fault benefits cover the cost of hospital, medical and rehabilitation treatment, attendant care required by injured persons, disability allowance as a partial replacement of lost earnings and, in the case of fatal injuries, funeral expenses and dependency benefits (where applicable).

The common law benefits provide for additional compensation following establishment of liability. The common law system awards damages generally and for loss of earnings, but specifically excludes payments for future care for the very seriously injured under the *Motor Accidents (Liabilities and Compensation) Act 1973* (MA Act). These costs are paid by the MAIB on an emerging basis.

The Tasmanian scheme is one of only three no-fault compulsory third party schemes in Australia, the others being in Victoria and Northern Territory. In October 2007, NSW introduced a no-fault component into its scheme to assist people with catastrophic injuries requiring long term care resulting from motor vehicle accidents. The Regulator understands that the South Australian Government is moving to a no-fault scheme from July 2014. The nature of a no-fault scheme means that reasonable medical expenses and loss of income benefits are paid for all accepted claims, irrespective of who caused the motor accident.

This Final Report outlines the Regulator's recommendations on the maximum premiums to be charged by the MAIB for the next four years.

The Regulator is required by the *Economic Regulator Act 2009* and by the Terms of Reference for the Investigation to take account of certain matters including:

- the costs of providing the service; and

¹ The Tasmanian Economic Regulator (the Regulator) is a three person independent statutory body established under the *Economic Regulator Act 2009* (ER Act). This body assumed the functions of the former Government Prices Oversight Commission (GPOC).

- the MAIB's financial circumstances including the viability of the scheme and the need for a sustainable commercial rate of return for the State.

The Regulator has reviewed the MAIB's estimates of the costs that contribute to the forecast of the break-even premium, i.e. that amount required to cover the costs of the claims and administration of the scheme after taking account of investment returns on premiums. The Regulator has also considered the requirement for a reasonable risk margin and the need to maintain the MAIB's financial health. In developing its recommendations for the maximum premiums to be paid for each class of vehicle, the Regulator has considered the claims experience of each class of vehicle and taken into account the relativities between the various vehicle classes in similar mainland schemes.

Break-even premium

The MAIB's costs arise almost entirely from claims and administration expenses, with claims costs representing 83 per cent of the MAIB's total costs.

The number of new claims made to the MAIB each year has declined over the past four years from around 3 300 per year in 2008 to just over 2 700 per year in 2012. At the same time, the growth in registered vehicles has averaged approximately 1.9 per cent per annum, down from 2.6 per cent per annum over the previous four year period covered by the current premium order. This has resulted in a decline in the overall frequency of claims per vehicle. Claims frequency has fallen 42 per cent since 2002.

The Regulator notes that the MAIB has increased its premiums only once during the period from 1 December 2005 to 30 November 2013 inclusive. This is despite being allowed to increase premiums by as much as Average Weekly Ordinary Time Earnings (AWOTE) growth each year. The Regulator understands that the declining claims frequency has been a significant contributor to the MAIB's decision not to increase premiums.

To assess the break-even premium, the Regulator evaluated the MAIB's estimates of claims size and frequency for scheduled benefit, common law and future care claims as well as administration and expenses related to road safety programs.

Scheduled benefits

General claims frequency has reduced since 2001-02, dropping by around 40 per cent including a fall of around 20 per cent between 2008 and 2012. The MAIB does not expect any further reduction in claims frequency in the near future.

The Regulator considered the outlook for claims frequency with respect to the observed historical trend, claims frequency of other similar schemes, and claims experience for the year to date (2012-13). The Regulator also considered the likelihood the Road Safety Taskforce (RSTF) continuing to contribute to a sustained reduction in MAIB claims. Based on this assessment, the Regulator considered that claims frequency could continue to decline.

However, the Regulator also considered the MAIB's view that the current flexibility in the premiums order allows the MAIB not to increase premiums to the maximum allowed amount should actual forecast claims frequency be less than that forecast. The MAIB's consulting actuary conducts an annual review of premium requirements for the MAIB. During this review process the actuary considers, amongst other things, the recent experience of claims frequency and claim cost. An assessment of these items leads to the following outcomes:

- increase premiums if claim costs rise (through AWOTE and superimposed inflation rates) and claim frequency remains the same or rises;
- maintain the same level of premiums if claims costs rise but claim frequency falls; or
- maintain the same level of premiums if both claims costs and claim frequency fall.

Alternatively, if the Regulator factored in a decrease in claims frequency into the calculation of the break-even premium and this proved to be incorrect the MAIB would be unable to recover its full costs.

As such, the Regulator is not expecting any further improvement in claims frequency over the pricing period to be covered by the premium order arising out of this Investigation. That said, the Regulator recommends that the MAIB undertake further detailed investigation into the determinants of its claims frequency for the next Investigation. This should include, amongst other things, the age and characteristics of the current and likely future vehicle fleet and the demographics and age of drivers including risk characteristics. The aim of this research should be to better inform the likely pattern of claims frequency into the future and when it may stabilise. Regarding the scheduled benefits average claim size over the last four years, there has been a gradual upward trend largely due to inflation from AWOTE and superimposed inflation of 1.5 per cent above AWOTE. However, in its preliminary submission the MAIB forecasted a substantial increase in the average claim size due to further increases in superimposed inflation, expected increases in hospital and ambulance fees, a change in the assumed discount rate and changes to third party recoveries. These changes are outlined in Table 1.1.

Table 1.1: Difference between cost per vehicle for scheduled benefits in 2009 and 2013, inflated and adjusted to 31 May 2014 dollars

Cost categories	\$/vehicle	Percentage of total difference
Hospital costs	20.1	63.8
Ambulance Costs	1.1	1.1
Superimposed inflation (based on 1.50% above AWOTE)	3.4	10.8
Change in discount rate	1.1	3.5
Third party recoveries	4.5	14.3
Other costs	1.3	4.1
Total ^{Note 1}	31.5	100.0

Source: MAIB Submission page 51 and OTTER analysis

Note: 1. This total is based on Table 8.2 of the MAIB's submission, however it has been adjusted to take into account the lower claims rate in 2013 compared to 2009. This allows for a more direct comparison between the claims value sub components.

With regards to hospital bed-day costs the MAIB provided correspondence between itself and the Tasmania Department of Health and Human Services (DHHS) to the Regulator. This correspondence indicated that DHHS will now be funded by the Commonwealth under the National Health and Hospitals Networks reforms and will receive funding based on the efficient price of services as determine by the Independent Hospital Pricing Authority. In line with this, DHHS plans to review the fees it charges the MAIB for claimants of hospital services. The MAIB proposed a doubling of hospital costs in its break-even premium as a precautionary allowance.

The Regulator held discussions with DHHS to better understand the likely timing and magnitude of any hospital fee increase for the MAIB. DHHS indicated that the review of MAIB charges had been delayed and is unlikely to occur for at least 12 to 18 months. Furthermore, the magnitude of any changes to MAIB charging is unclear at this stage. Until this time, the Regulator understands that the MAIB will continue to be charged at the current rate set out in the *Health (Fees) Regulation 2007* which is indexed each year to CPI. In its submission on the Draft Report, the MAIB considered that the introduction of any hospital cost increase would likely occur from 1 December 2014 and that this would be material, warranting inclusion of these cost increases in the calculation of the break-even premium. However the Regulator does not consider that sufficient certainty currently exists on the timing and likely magnitude of any cost increases and has rejected the MAIB's proposal to include an allowance in its premiums and recover additional revenue from consumers over the next four years to cover the possibility of these costs doubling during the pricing period i.e. the Regulator did not consider it appropriate to allow the MAIB to raise premiums when the timing and extent of the underlying cost increases are not currently known. The Regulator has however considered approaches that could be adopted to allow the pricing order to be reopened should the impact of any future increase in hospital bed-day costs be material (see 'Conditions for re-opening the pricing order' below).

With regards to the expected increases in ambulance costs, the Regulator understands that this has occurred due to DHHS commencing to charge medical escort fees that were previously not charged together with an increase in overall fees following DHHS's review of current ambulance fees. The Regulator further understands that the increased ambulance costs will be in effect for the start of the new pricing period. The Regulator recommends accepting the MAIB's proposal due to a relatively high level of certainty that the ambulance fee increase will occur based on the current status of the ambulance fee review. The ambulance fee increase will be a one-off step increase of approximately \$500 000 which will be passed on to premium holders with normal indexation applying thereafter. The MAIB is unable to influence the quantum of this expected increase.

The MAIB is forecasting a reduction its real rate of return on investments from four per cent to three per cent. This has the impact of increasing cost of claims for pricing purposes because less offsetting funds are available from investments. The reduction in the discount rate is based on advice from the MAIB's asset consultant considering the MAIB's portfolio and future economic outlook. This position was also supported by the Regulator's consultant, Finity Consulting Pty Ltd. The Regulator considered that this estimate may be conservative given that it is lower than previously adopted by the MAIB during the Global Financial Crisis (GFC), lower than the rate of return adopted when the MAIB had a lower growth portfolio of assets and relatively lower compared to other jurisdictions.² Furthermore, it is lower than historical returns when the impact of the GFC is excluded. However, the Regulator accepts the MAIB's proposal of three per cent based on advice provided by the MAIB's asset consultant, and the Regulator's actuary consultants.

The Regulator investigated each of the other items listed in Table 1.1 and considered they were reasonable.

As a result of these deliberations, the Regulator recommends the adoption of an average claim size of \$10 179 for 2013-14 instead of the MAIB's proposal of \$13 741. This reduction is based on the exclusion of the MAIB's proposed hospital cost increase.

Common law

The frequency of common law claims has also fallen by 43 per cent since 2001-02 and by 23 per cent since 2008. Similar to the situation with scheduled benefits, whilst the Regulator considers that this trend may continue it accepts the MAIB's view of the benefits of the flexibility offered by the pricing order and the risk to the MAIB's financial position of forecasting a downward trend if in fact this does not occur. Given this, the Regulator is not factoring in further improvement in claims frequency (i.e. a continuing reduction in frequency) over the pricing period.

² With the exception of Western Australia, the MAIB's assumed investment return is similar to jurisdictions who have a more defensive portfolio of assets compared to the MAIB's growth portfolio.

The Regulator has also accepted the MAIB's forecast proportion of non-nil damages claims at 36 per cent which is one per cent more than the ten-year average. The additional one per cent for the pricing period is considered justifiable as it is consistent with what has been observed in recent years.

Whilst only a small portion of costs for recent accidents have been paid, and the expected costs therefore rely substantially on estimates, the MAIB suggests that the average claim size is also increasing. The estimated increase in costs to 31 May 2014 dollars is based on superimposed inflation of 0.75 per cent above AWOTE and the change in the discount rate³ as outlined in Table 1.2. The increase from the superimposed inflation rate is based on observed historical evidence whilst the change in the discount rate is about perceptions of future returns as discussed above. Given this evidence the Regulator considers that the MAIB's assumptions are reasonable and are consistent with those adopted in previous investigations.

Table 1.2: Difference between cost per vehicle for scheduled benefits in 2009 and 2013, inflated and adjusted to 31 May 2014 dollars

Cost categories	\$/vehicle	Percentage of total difference
Superimposed inflation (based on 0.75% above AWOTE)	2.3	45.1
Change in discount rate	3.3	64.0
Other costs	-0.5	-9.0
Total ^{Note 1}	5.1	100.0

Source: MAIB Submission page 51 and OTTER analysis

Note: 1. This total is based on Table 8.2 of the MAIB's submission, however it has been adjusted to take into consideration the lower claims rate in 2013 compared to 2009. This allows for a more direct comparison between the claims value sub components.

Future care

The number of Future Care claims has fluctuated between five and 14 claims per annum since 2002, with the average being seven. Based on historical experience and a comprehensive review, which reduced the number of incurred but not reported claims, the MAIB has forecast the average number of claims to be eight per year.

The Regulator recognises the difficulty in accurately projecting such small numbers of claims. However, based on available evidence, the Regulator is of the view that an assumption of eight is reasonable.

The cost of Future Care claims can only be estimated and is highly uncertain. Many factors can contribute to changes in future cost claims, including deterioration in a

³ Note that the change in the discount rate impacts common law claims more than scheduled benefits because individual common law claims have a longer term mean payment profile. Scheduled benefits actually have a longer tail but the majority of scheduled benefits are paid shortly after an incident. Common law payments take more time to be settled and thus the majority of common law payments are paid later which results in a higher impact with changes in the discount rate compared to scheduled benefits.

claimant's health, ageing of parental carers and technological advances. The life expectancies of young claimants with catastrophic injuries are often unaffected. Historically the average size of a Future Care claim is in the range of \$1.80 million to \$4.41 million.

The MAIB has estimated an average claim size of \$4.08 million. The assumed average size was based on the estimated claim size of the most recent experience of reported claims and an allowance for increases in carer's wages following a recent Fair Work Australia (FWA) decision. The decision awarded increases in award rates to carers based on level – there are seven levels from Level 2 to Level 8. The increases ranged from 19 per cent for Level 2 to 41 per cent for Level 8 and were to be applied in nine equal steps on 1 December each year, commencing in 2012 and finishing in 2020. In addition, FWA awarded cumulative annual loadings of one per cent per annum over the first four years of the implementation period.

The MAIB has not proposed making any allowance for superimposed inflation for future care based on claims cost investigations undertaken by its actuary.⁴ Its actuary has found no apparent trend towards under or over estimation of its liabilities. The MAIB does note however that there is potential for additional cost pressures for Future Care claims, given the long-term nature of Future Care payments and the high proportion and therefore significant impact of medical and carers costs. The MAIB notes that the recent FWA decision on carer's costs may have previously been considered a burst of superimposed inflation however this has been covered in the base level estimate.

Based on the available evidence the Regulator recommends accepting the MAIB's proposal to base the break-even premium on an expected eight future care claims and average claim size of \$4.08 million.

Break-even premium conclusion

The MAIB proposed a break-even premium of \$258 based on its assumptions of claims frequency and average claim sizes. As noted above, the Regulator considers that the allowance for the future increase in hospital costs should be removed because there is uncertainty surrounding the timing and the magnitude of any increase. On this basis, the Regulator considers that the annual breakeven premium should therefore be set at \$239 per vehicle which is \$19 less than the MAIB's proposal.

MAIB financial circumstances

The MAIB's investment revenues are derived from two sources: premium income invested to cover the future cost of claims and shareholders' funds.

⁴ See MAIB submission, p.80.

The average investment return since 2000-01 has been around 6.0 per cent per annum, but with considerable volatility from year to year, ranging from 13.9 per cent to negative 8.8 per cent.

Investment in a higher proportion of growth assets has allowed the MAIB to benefit from the strong economic growth in Australia and some overseas markets between 2003-04 and 2006-07. This was followed by two years of negative returns due to the impact of the GFC. Returns picked up again in 2010 and 2011 reversing the GFC's impact on the MAIB's solvency. Returns weakened again in 2012 but are expected to rebound to around nine per cent in 2013.

Following an actuarial review in April 2007, the MAIB adopted a higher target solvency range of 20 to 25 per cent (the MAIB had previously adopted a target solvency range of 15 per cent to 20 per cent). At present, solvency is slightly under this range but is expected to bounce back by the end of 2012-13 and further increase throughout the pricing period.

For this Investigation the Regulator engaged the actuary consulting firm Finity to consider, amongst other things, an appropriate solvency range for a government owned compulsory third part insurer such as the MAIB. Finity considered that a wider solvency target range may be more appropriate and "a lower bound of zero per cent is a sensible level to consider as poor."⁵ Finity also considered that a strict application of the Australian Prudential Regulatory Authority (APRA) standards is not appropriate given the unique position of the MAIB being backed by the Government, having a captive client base and having largely long-tail liabilities. That said Finity considered that the MAIB's solvency range was not unreasonable given the risk faced by the MAIB. However Finity also recommended that the MAIB consider:

- its risk tolerance if solvency fell below its target solvency range; and
- an acceptable time horizon to recover from any poor solvency position.

Pricing may be described as a blunt instrument to assist in maintaining solvency levels. This is because investment returns tend to be volatile which can also cause solvency to fluctuate widely, as observed during the GFC. For pricing purposes the Regulator considers that zero per cent may be appropriate as a lower bound for solvency. In its draft report, the Regulator did not suggest the MAIB actively reduce its current solvency position as this is a decision for the MAIB Board and the Government. The Regulator appreciates that excess of assets over liabilities can change quickly in line with changes in investment returns and can be useful to fund unforeseen costs that may be partially retrospective, such as decisions made by FWA. The decision about the appropriate solvency level is largely influenced by investment returns and re-iterates that this is decision for the MAIB and the government. Rather, the Regulator considers that the MAIB's recommended maximum premiums need not be impacted by the MAIB's financial position if its

⁵ Finity (2013) "Motor Accidents Insurance Board Pricing Investigation 2013" report prepared for the Tasmanian Economic Regulator, p.5.

current and expected future solvency ratio is above zero per cent (i.e. the MAIB has sufficient assets to cover its liabilities). Indeed this is expected to be the case over the pricing period.

To inform the next Investigation the Regulator recommends that the MAIB and the Government undertake an exercise to determine their risk tolerance to falling below certain solvency levels and their tolerance to the time required to recover from a poor solvency outcome, as recommended by Finity. In undertaking this exercise, the Regulator supports Finity's conclusion that there needs to be a stronger link between the MAIB's and the Government's respective risk tolerances in setting the appropriate target solvency range. The Regulator notes the MAIB's comments that:

- it will review its solvency target this year;
- its solvency target may increase to between 20 and 30 per cent: and
- it does not consider a trigger for actions necessary if solvency rises above its target range.

The Regulator considers that this review would appear to be an appropriate time to undertake the exercise suggested by Finity, particularly given that Finity notes that the MAIB's target solvency range should have regard to the MAIB's specific circumstances and not to APRA capital standards.

Average premium

The average premium is determined on the basis of a profit margin, known as insurance profit, plus the break-even premium. The Regulator considers that the profit margin should be considered on two levels. The first is the normal level of profit that the MAIB should be able to earn in normal economic times and when solvency is at a suitable level. The second is a premium on this normal profit margin to assist the MAIB return to its solvency target ratio at a desirable time in the future.

With regards to the normal profit, the Regulator considers that the 10 per cent profit margin proposed by the MAIB is reasonable as is a 1 per cent allowance for expected revenue shortfall.⁶ This is based on the evidence provided by the MAIB comparing its proposed profit margin with the profit margins adopted by other jurisdictions. It is also based on the analysis undertaken by Finity in its report for the Regulator, in which it considered a target profit of around 10 per cent as reasonable and consistent with government owned CTP insurers.⁷

With regards to the premium on the normal profit margin the Regulator has considered the following four issues:

⁶ This is due to shifts in the mix of vehicles, increasing pensioner numbers, non-renewal of periodic registrations and gaps between periods of registrations.

⁷ See Finity (2013) "Motor Accidents Insurance Board Pricing Investigation 2013" report prepared for the Tasmanian Economic Regulator, pp.17-18.

- the current solvency level of the MAIB and gap from the target solvency range;
- the acceptable time horizon to recover from a poor solvency position;
- the impact of future investment returns on reaching the target solvency level; and
- the impact that increasing the profit margin may have on this timing.

During the previous Investigation the MAIB's solvency level had fallen significantly below its target solvency level at the height of the GFC. Furthermore, financial markets were expected to take some time to rebound leading to lower forecast investment returns. Given this a 20 per cent premium on the normal profit margin was granted to assist the MAIB in returning to its target solvency level more quickly.

For the current Investigation and based on the available information, the MAIB's solvency is expected to remain strong and within the MAIB's solvency range. It is also expected to be well above the Regulator's suggested lower bound of zero per cent for pricing purposes. Given this, the Regulator does not consider a premium on the profit margin is required for the pricing period.

Taking into account these factors and the Regulator's view on the break-even premium, the Regulator is proposing a *maximum* average premium effective from 1 December 2013 of no more than \$266. This represents a 7.4 per cent reduction in the current average premium (excluding duty and GST).

Maximum premiums

The current MAIB premium schedule contains 22 separate classes (with pensioner discounts available to both Class 1 Motor Car and Class 2 Light Goods Vehicle).

Motor accidents may involve one or more vehicles, with varying degrees of liability. The issue of allocation of claims costs between vehicles involved in an accident is a fundamental issue when determining reasonable premiums for each class of vehicles.

Since 2005, the MAIB has allocated claims costs to vehicle classes on the basis of 'fault'. Prior to this, costs were allocated on the basis of 'vulnerability' (i.e. costs were allocated depending on the type of vehicle in which the injured claimant was travelling).

Consistent with recommendations made in 2009 by the Commission, recent claims experience and recommendations flowing from the MAIB's consulting actuary's 2012 premium relativity review, the Regulator recommends the following relativity changes:

- Class 4, 5 and 20 Motorcycles from 1.28 to 1.50;
- Class 6 Taxis or Chauffeured Hire Cars from 3.09 to 3.50;
- Class 18 Off-road and Recreational Vehicles from 0.59 to 0.75; and

- Class 16 Medium Passenger Vehicles from 1.58 to 1.35.

The claims experience for these classes of vehicles is not currently reflected in the premiums charged and costs are therefore not equitably spread across all vehicle classes. The Regulator is of the view that there aren't any benefits in retaining the inherent cross-subsidies for these classes, or at least not to the level reflected in the current premium relativities. If accepted by Government, the Regulator's recommendations would reduce the cross-subsidies, whilst acknowledging affordability limitations, particularly for Class 18 vehicles. An equitable and fair share of scheme costs spread across classes of vehicles based on claims experience benefits all motorists through minimal cross-subsidisation and relatively stable premium increases.

For Classes 4, 5, 6, 16, 18 and 20, the Regulator recommends spreading the impact of the relativity changes increments over the next four years as detailed below in the Summary of Recommendations (page XVII of this report).

Subject to the Government's acceptance of the Regulator's recommended maximum premiums, the Regulator notes that, if financial circumstances permit during the pricing period, the MAIB could, as it has done in the past, choose not to increase its premiums to the maximum extent to be specified in the new premium order. That said, the MAIB may still consider changes to its premium relativities, given that premium relativities have not materially changed over the two previous review periods to match both the Regulator's and the MAIB's consulting actuary's previous recommendations.

The Regulator notes that its recommendation to reduce the average premium now means that premiums are more likely to increase in the future from this lower base which would provide a greater opportunity for the MAIB to adjust premium relativities.

Other matters

In undertaking this Investigation, the Regulator has taken into account the 11 other matters specified in the Terms of Reference. A brief outline of the approach to each matter is provided below.

1. The scope and intent of the *Motor Accidents (Liabilities and Compensation) Act 1973*.

Chapter 2 discusses the legal and regulatory framework in which the MAIB scheme operates.

2. Whether any cross-subsidies exist in the current pricing structure (especially in relation to different vehicle classes and different risk types) and, if they exist, the benefits and costs of retaining these cross-subsidies.

Chapter 6 details the Regulator's approach in assessing the appropriate premium relativities by examining the actual experience relativities, the credibility-weighted relativities in the actuarial review and, where appropriate,

the premium relativities in other jurisdictions in making an assessment as to the size of any likely cross-subsidy between classes.

3. An appropriate mechanism to remove these cross-subsidies should this be considered desirable.

Chapter 6 recommends phasing in the relativity adjustments over four years.

4. The appropriateness of the MAIB using current insurance industry prudential requirements as a benchmark to measure long term sustainability.

Chapter 5 examines the MAIB's claims liability and solvency and the adequacy and relevance of the APRA requirements for the MAIB.

5. The provision of funding by the MAIB to the Road Safety Taskforce (RSTF) and recognised groups through the Injury Prevention and Management Foundation (IPMF).

Chapter 3 examines the level of funds spent on accident prevention programs by the MAIB relative to other jurisdictions.

6. The appropriateness of the current claim liability valuations method.

Chapter 5 looks at the two key factors used to determine the estimated outstanding claims liability: the discount rate and claims inflation rate.

7. The loading required on periodic premiums to ensure that there is no net impact on the MAIB's revenue.

Chapters 4 and 6 look at the surcharge on periodic registrations to determine if it adequately covers the foregone investment income and the cost of additional collection fees.

8. the impact of recent amendments to the following acts on vehicle classification:
 - a. *Passenger Transport Services Act 2011*;
 - b. *Taxi and Luxury Hire Car Industries Amendment Act 2011*; and
 - c. *Passenger Transport and Related Legislation (Consequential Amendments) Act 2011*.

Chapter 6 considers the impact of these legislative changes on vehicle classification, as part of the review of premium relativities for vehicle classes.

9. the potential impact of the proposed National Injury Insurance Scheme (NIIS) on the MAIB;

Chapter 7 outlines the Regulator's understanding of the proposed NIIS and its potential impact on the MAIB.

10. the potential impact of the introduction of the National Heavy Vehicle Regulator (NHVR) ; and

Chapter 3 (Section 3.4.6) considers the implications of the establishment of the NHVR on the MAIB and its break-even premium.

11. the correlation of MAIB classification of vehicles and the premium order to other areas managed by state regulation.

Chapter 6, as part of the determination of premium relativities for vehicles classes, discusses the concerns raised by the Department of Infrastructure, Energy and Resources in relation to this item.

Conditions for re-opening the pricing order

For this Investigation there were a number of uncertainties surrounding the estimation of some parameters. Specifically, uncertainty surrounded:

1. the potential introduction of the NIIS;
2. possible future increases in hospital bed-day costs;
3. the introduction of new ambulance costs; and
4. forecast claims frequency in light of a sustained declining historical trend.

As noted in this report, whilst uncertainty exists over items 3. and 4., the Regulator accepted the MAIB's proposal due to a reasonably high level of information and therefore certainty about ambulance costs and the MAIB's ability to choose to not increase premiums should claims frequency continue to decline.

However, the Regulator considered that too much uncertainty surrounded the timing and magnitude of both the possible increase in hospital bed-day costs and the potential introduction of the NIIS. That said the Regulator understands that decisions may be made concerning these issues during the pricing period and has suggested the conditions to be met in deciding whether the pricing order should be re-opened to take into account the impact of these additional costs should they materialise.

The Regulator notes that there are significant costs involved in undertaking a pricing investigation for the MAIB, the Government and ultimately motorists. Furthermore, the Regulator notes that the pricing order applies for four years, thus any corrections can, be made at the time of the next investigation (the FWA decision is an example of this from the current investigation). Given this, the Regulator considers that the pricing order should only be re-opened if the MAIB's financial position is compromised due to a material impact from increases in costs associated with the NIIS or the hospital bed-day costs individually. Two alternative approaches have been considered for determining whether there has been a material impact such that the Minister should consider re-opening the pricing order.

The first approach proposed by the Regulator in its draft report is based on advice the Regulator received from its actuarial consultant, Finity, which relates to solvency. Under this option, if solvency falls below zero per cent then solvency may be considered poor, and warrant re-opening the pricing order. In this regard Section 5.3 of the Final Report presents a scenario where hospital bed-day costs may

unexpectedly increase. Under this scenario the impact on solvency is expected to be minimal.

The second approach is based on advice from the MAIB and its consulting actuary, Taylor Fry. The MAIB and Taylor Fry, consider that if there is to be a condition for a re-opener, it should be based on changes in the break-even premium. Specifically, the MAIB considers a material impact would arise if the break-even premium increases by at least five per cent, after the break-even premium has been re-calculated by Taylor Fry to ensure materiality is considered with reference to current conditions. This approach would be consistent with ensuring that annual premium revenue recovers annual expected costs of the MAIB in each year.

On balance, the Regulator recommends that the second approach should be adopted when considering whether the pricing order should be re-opened. The Regulator understands that it is more common practice in the insurance industry to use future income to fund future costs and not subsidise future income through the use of solvency reserves. In addition, this is the methodology adopted by the Regulator in assessing the MAIB's break-even premium in both the current and in previous investigations.

Furthermore, outside of an investigation, the Regulator understands that the MAIB adopts the same methodology when it reviews its costs each year to determine whether premiums need to be increased up to the maximum allowed by the Regulator. In doing so, the MAIB calculates a break-even premium and adds a profit margin. The Regulator understands that the MAIB does not have regard to solvency or past investment returns when setting its future premiums. In its submission on the draft report the MAIB considered that solvency was largely an irrelevant consideration in setting premiums, except in circumstances when solvency has dropped to an unacceptable level.

The Regulator notes that solvency at any one point in time is determined by past premium income, investment returns on that income and outstanding claims liabilities at that time. Therefore the MAIB effectively earmarks its existing reserves to fund existing liabilities and funds future claims from future premium income plus investment returns on that future premium income. Accordingly, it may be considered inconsistent to use investment returns on historical premiums to subsidise future premiums.

The Regulator notes that solvency at any one point in time can fluctuate widely due to market fluctuations. If reserves were used to subsidise future premiums, there would be less capacity to manage the consequences of market fluctuations and to ensure the MAIB's solvency position remains on average strong to fund its existing known claims.

Given this, the Regulator considers a re-opener, with respect NIIS or the hospital bed-day costs, should have regard to expected future premiums and their ability to recover future costs. As such the Regulator recommends that a re-opener would not be necessary unless increases in costs associated with the NIIS or the hospital bed-day costs individually increase the break-even premium by at least

five per cent, having been re-calculated based on the most up to date information, consistent with the MAIB's and Taylor Fry's suggested approach.

SUMMARY OF RECOMMENDATIONS

Maximum premiums

The Regulator recommends that:

1. from 1 December 2013 the base premium for all premiums be reduced by 7.4 per cent (excluding duty and GST).
2. the following relativity adjustments occur:
 - Classes 4, 5 and 20 (Motorcycles) where the maximum premiums, excluding duty, be increased by 4.04 per cent per annum from 1 December 2013 and for all subsequent years of the pricing period;
 - Class 6 (Taxis and Chauffeured Hire Cars) where the maximum premiums, excluding duty, be increased by 3.16 per cent per annum from 1 December 2013 and for all subsequent years of the pricing period;
 - Class 18 (Off-road and Recreational Vehicles) where the maximum premiums, excluding duty, be increased by 6.18 per cent per annum from 1 December 2013 and for all subsequent years of the pricing period, but that the MAIB take into account the impact on registrations of such an increase before implementing such a change; and
 - Class 16 (Medium Passenger Vehicles) where the maximum premiums, excluding duty, be decreased by 3.86 per cent per annum from 1 December 2013 and for all subsequent years of the pricing period.
3. all maximum premiums to be escalated annually from 1 December 2014 by the annual change in AWOTE, in addition to the recommended percentage change due to the application of the relativity adjustments recommended in 2. above.
4. maximum half-yearly premiums to be equal to one half of the maximum annual premiums⁸ plus three per cent rounded to the nearest five cents, and
5. maximum quarterly premiums to be equal to one quarter of the maximum annual premiums plus six per cent rounded to the nearest five cents.

The maximum premiums applicable from 1 December 2013 are presented in Table 1.

⁸ Half-yearly and quarterly premiums are calculated by reference to the formulae in the MAIB Premiums Order and will vary depending on the number of days in the period in question. For example, one quarter could have 90 days and the next 92 days.

Table 1: Recommended maximum premiums (including GST and duty) - 1 December 2013 to 30 November 2014

	Class of Vehicle	Present Premium	Adjustment to base premium	Impact of relativity change (where applicable)	Recommended Maximum Premium from 1 Dec 2013
1	Motor Car	364	338		338
	Pensioner Discount	295	275		275
2	Light Goods Vehicle	364	338		338
	Pensioner Discount	295	275		275
3	Heavy Goods Vehicle	563	523		523
4	Medium Motorcycle	462	429	17	446
5	Large Motorcycle	462	429	17	446
6	Taxi and Chauffeured Hire Car	1082	1003	31	1034
7	Large Passenger Vehicle	908	842		842
8	Hire and Drive Vehicle	908	842		842
9	Caravan, Plant and Machinery	65	62		62
10	Heavy Trailer	121	113		113
11	Mobile Crane	383	356		356
12	Restricted Registration Vehicle	67	64		64
13	Plant & Machinery (Self-Propelled)	150	140		140
14	Motor Trade Plate	383	356		356
15	Farm Tractor	150	140		140
16	Medium Passenger Vehicle	563	523	-20	503
17	Small Motorcycle	192	179		179
18	Off Road & Recreational Vehicles	224	209	11	220
19	Short Term Permits	54	51		51
20	Medium Large Motorcycle	462	429	17	446
21	Vintage Motor Vehicle or Street Rod	54	51		51
22	Special Interest Vehicle	131	123		123

Note: Duty has increased from \$6 to \$20 per vehicle since the previous investigation.

Other recommendations

The Regulator also recommends that the MAIB review its risk tolerance in the event that its solvency falls below its target solvency range and an acceptable time horizon to recover from any poor solvency position.

1 INTRODUCTION

Part 3 of the Economic Regulator Act provides the authority for the Tasmania Economic Regulator (the Regulator) to undertake pricing investigations into monopoly providers' pricing policies. The MAIB is one such provider that the Regulator is required to investigate on a four year cycle.

This is the sixth pricing investigation into the MAIB pricing policies; five having been undertaken by the former Government Prices Oversight Commission (Commission).

1.1 Terms of Reference

On 17 December 2012, the Minister for Finance requested the Regulator to conduct an investigation into the pricing policies of the Motor Accidents Insurance Board (MAIB).

The Terms of Reference are reproduced in full in Appendix A. Essentially, the Regulator is required to:

...investigate the prices levied on motorists to fund the current provision of motor accident personal injury insurance for all persons injured in motor vehicle accidents involving Tasmanian-registered vehicles.

In investigating the MAIB's pricing policies, the Regulator is also required to consider:

- the scope and intent of the *Motor Accidents (Liabilities and Compensation) Act 1973*;
- whether any cross-subsidies exist in the current pricing structure (especially in relation to different vehicle classes and different risk types) and if they exist, the benefits and costs of retaining these cross subsidies;
- an appropriate mechanism to remove these cross-subsidies should this be considered desirable;
- the appropriateness of the MAIB using current insurance industry prudential requirements as a benchmark to measure long term sustainability;
- the provision of funding by the MAIB to the following:
 - the Road Safety Advisory Council; and
 - recognised groups through the Injury Prevention and Management Foundation;
- the appropriateness of current claim liability valuations;

- the loading required on periodic premiums to ensure that there is no net impact on MAIB's revenue;
- the impact of recent amendments to the following acts on vehicle classification:
 - *Passenger Transport Services Act 2011*;
 - *Taxi and Luxury Hire Car Industries Amendment Act 2011*; and
 - *Passenger Transport and Related Legislation (Consequential Amendments) Act 2011*;
- the potential impact of the proposed National Injury Insurance Scheme on the MAIB;
- the potential impact of the introduction of the National Heavy Vehicle Regulator; and
- the correlation of MAIB classification of vehicles and the premium order to other areas managed by state regulation.

The Final Report provided by the Regulator under Section 35 of the Act must contain recommendations in relation to the appropriate maximum prices (as defined in Section 4 of the Act) to be charged by the MAIB for each category of vehicle to provide motor accident personal injury insurance for all persons injured in motor vehicle accidents involving Tasmanian-registered vehicles, for the four-year period following completion of the Final Report.

Under the Terms of Reference, the Regulator must provide a copy of the Final Report to the Minister and Portfolio Minister (in this instance the Minister for Infrastructure) by 31 July 2013. At an appropriate time during the investigation, the Regulator was also required to make a Draft Report available.

The final decision on the level of maximum premiums rests with the Government and will be set out in an Order to be tabled before both Houses of Parliament.

Within 60 days of receipt of the Final Report, the Portfolio Minister must make an Order taking into account the Commission's recommendations. The MAIB will then be required to reset its premiums in accordance with the Order. The Order is to take effect on the 61st day after notification of its making in the *Tasmanian Government Gazette*. The current *Government Prices Oversight (MAIB Premiums) Order 2009* (MAIB Premiums Order) is due to expire on 30 November 2013.

1.2 Approach to the Investigation

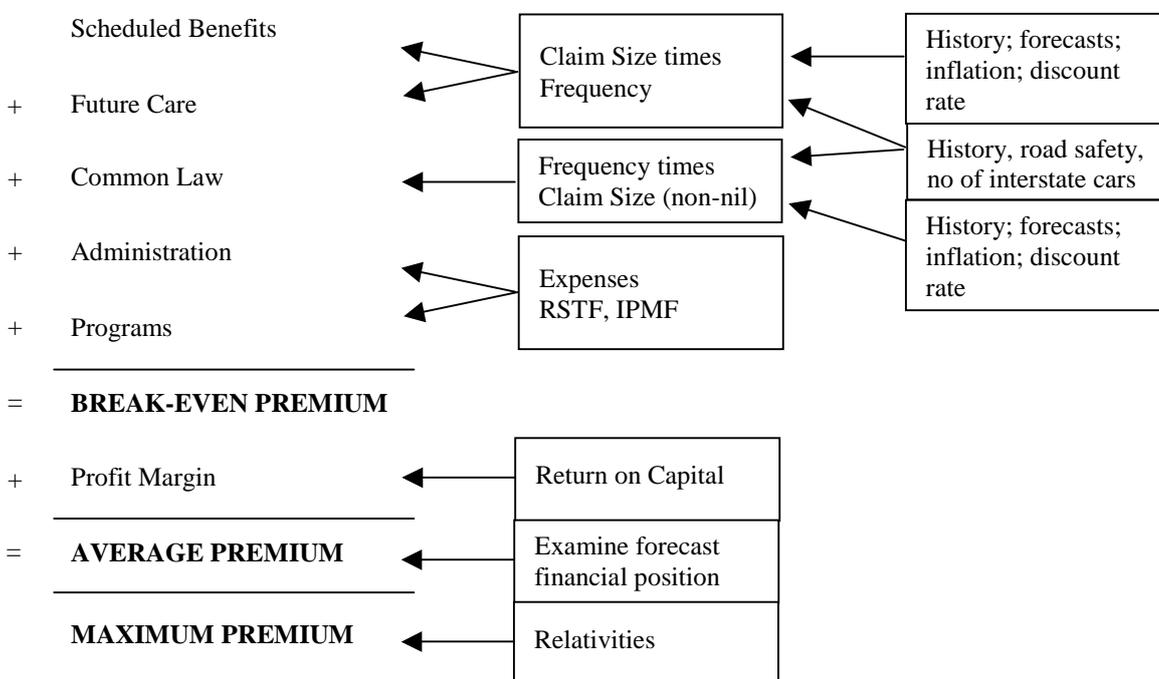
This Investigation is the first conducted by the Regulator, following on from the previous five MAIB pricing policies investigations conducted by the former Commission. Previous MAIB investigations were conducted in 1997, 2000, 2003, 2006 and 2009. Reports and related submissions for the current Investigation can be obtained from the Regulator's website: www.economicregulator.tas.gov.au.

Details about previous investigations may be obtained from the former Commission's website: www.gpoc.tas.gov.au.

The Regulator's approach to this Investigation, as in previous investigations, into the MAIB pricing policies is to:

- determine the break-even premium by estimating the amount required to meet the expected cost of claims based on an actuarial assessment of likely claims experience, estimates of administrative costs and estimates of forecast returns from investments;
- determine the average premium by adding a profit margin to the break-even premium. The assessment of the profit margin will take into account benchmark returns in similar industries with similar risk profiles;
- examine the impact of the average premium and the proposed maximum premium on the forecast MAIB financial position, in particular on the forecast solvency of the scheme; and
- review claims experience and the definitions of each class of vehicle and determine appropriate premium relativities (ie the weighting in proportion to the standard class of passenger vehicle).

Figure 1.1: Summary of approach to Investigation



1.3 Structure of this report

The Regulator has produced this Final Report after taking into account MAIB's submission to the Investigation and responses to the Regulator's Draft Report. The Final Report is structured as follows:

- Chapter 2 provides an overview of motor accidents insurance in Australia, the MAIB scheme and changes since the 2009 Investigation;
- Chapter 3 analyses the MAIB's proposed break-even premium;
- Chapter 4 analyses the MAIB's current financial position and issues to consider when determining premiums;
- Chapter 5 analyses the MAIB's proposed average premium, including the allowable insurance profit to incorporate into premiums;
- Chapter 6 considers the current premium relativities between vehicles classes and the need for adjustment based on recent claims experience; and
- Chapter 7 addresses other matters including the National Injury Insurance Scheme (NIIS), conditions for re-opening the pricing order and concerns raised by stakeholders.

2 MOTOR ACCIDENTS PERSONAL INJURY INSURANCE IN AUSTRALIA

2.1 Introduction

Each state in Australia has set up a motor accident personal injury insurance scheme (sometimes referred to as compulsory third party or 'Green Slip' insurance). Schemes vary in their level and type of benefits and range of operational arrangements. They are operated either by Government agencies or private sector insurance companies.

Essentially there are three types of schemes operating in Australia, providing two main types of benefits. The three types of schemes are:

1. **'No-fault' (or 'scheduled') benefit schemes** – benefits are provided to any person injured in a motor vehicle accident regardless of their level of 'fault' in causing the accident. The benefits include coverage for medical costs, rehabilitation, loss of earnings and future care. The provision of such schemes is based on the premise that it is in the community's interest as a whole to have injured persons appropriately treated, thereby being able to recover from their injuries at optimum capacity in a timely manner, without putting an undue burden on individual families or taxpayers.
2. **'Common law' schemes** – benefits are provided following the establishment of liability or 'fault'. The scheme operates to provide an opportunity for the injured parties to bring actions based on negligence for compensation against the owner/driver assessed as being at 'fault'.
3. **'Full coverage' schemes** – a combination of common law and no-fault benefits is provided. Under this approach, certain benefits such as medical, rehabilitation, future care, and loss of earnings are provided regardless of fault. In addition, some motorists are able to pursue compensation under common law for general and other damages arising from the accident.

The various schemes operating in Australia are summarised in Table 2.1.

Table 2.1: Australian scheme types

State/Territory	Description of the scheme	Underwritten by
ACT	common law	NRMA
NSW ^{Notes 1 & 2}	common law with statutory limits	7 private insurers
NT	no-fault only	TIO
QLD	common law (with cap on economic loss)	6 private insurers
SA ^{Note 3}	common law with statutory limits	MAC
TAS	no-fault with common law (with cap on economic loss)	MAIB
VIC	no-fault with limited common law rights	TAC
WA	common law with statutory limit	ICWA

Source: MAIB Submission, Appendix B.

Notes:

1. In October 2007, NSW introduced a long term care scheme to assist people with catastrophic injuries resulting from motor vehicle accidents, regardless of fault. The scheme applies to children injured on or after 1 October 2006 and adults injured on or after 1 October 2007.
2. On 17 February 2013, the NSW Government announced a decision to change the scheme to a no-fault basis with defined statutory limits.
3. The South Australian Government is proposing a new no fault scheme from July 2014.

The key points to note are:

- all states, except the Northern Territory, provide common law benefits for residents. Since July 2007 the Northern Territory scheme is limited to no-fault benefits only. Tasmania and Victoria provide both no-fault and common law benefits; and
- in New South Wales (NSW), Queensland and the Australian Capital Territory (ACT), compulsory third party (CTP) insurance is provided through the private sector. However, all of the schemes operate with some degree of government regulation providing oversight of premiums aimed at maintaining community rating principles and relatively stable prices.

A summary of comparative premiums is provided in Appendix D.

2.2 The MAIB scheme

As noted above, the MAIB provides both no-fault and common law benefits to Tasmanian motorists who have suffered bodily injury as a result of a motor vehicle accident.⁹

The no-fault benefits provided by the scheme cover costs in relation to the cost of future care, medical, hospital, rehabilitation treatments and death/disability allowance. The common law benefits provide for additional compensation following establishment of liability. The common law system is permitted to award damages

⁹ Section 23(2B) of the *Motor Accidents (Liabilities and Compensation) Act 1973* defines the circumstances that give rise to injuries resulting from a motor vehicle accident.

generally but the *Motor Accidents (Liabilities and Compensation) Act 1973* (MA Act) specifically excludes payments for future care.¹⁰

For the most part, common law damages are unlimited except for the following exceptions:

- there is a \$4 000 threshold for access to general damages, with a sliding scale between \$4 000 and \$20 000 (indexed); and
- the average earnings figure used in calculating future economic loss may not exceed three times average weekly earnings.¹¹

2.3 Legal framework

2.3.1 Motor Accidents (Liabilities and Compensation) Act 1973

The MA Act was proclaimed on 4 December 1973. It makes provision for:

... the discharge of liabilities in respect of deaths and bodily injuries arising from motor accidents and for the payment of compensation in respect of those deaths and bodily injuries, and to make provision in relation to the prevention of such deaths and bodily injuries and the management and treatment of such injuries, and for related purposes....

The MAIB was established in 1974 to administer the MA Act.

Changes to the Act and Regulations since 2009 are discussed in Section 2.4 of this report.

2.3.2 Government Business Enterprises Act 1995

The *Government Business Enterprises Act 1995* (GBE Act) sets out the governance arrangements and financial management requirements for those wholly owned Government businesses that have not been corporatised under the Corporations Law.

The MAIB is listed in the schedules to the GBE Act and, as such, is subject to the provisions of that Act. The GBE Act makes provision for:

... the establishment, commercial operation and accountability of Government Business Enterprises, the relationship between Government Business Enterprises and the Government and the payment of financial returns to the State by Government Business Enterprises and for related purposes.

¹⁰ Section 27A of the MA Act.

¹¹ Section 2(1) of the MA Act defines "adult average weekly earnings" as meaning the dollar figure for full-time adult ordinary time earnings for persons set out under the heading "AVERAGE WEEKLY EARNINGS, Australia: Original" in catalogue number 6302.0 published by the Australian Bureau of Statistics, as amended from time to time.

Section 7 of the GBE Act states:

The principal objectives of a Government Business Enterprise are –

- (a) to perform its functions and exercise its powers so as to be a successful business by –
 - (i) operating in accordance with sound commercial practice and as efficiently as possible; and
 - (ii) achieving a sustainable commercial rate of return that maximises value for the State in accordance with its corporate plan and having regard to the economic and social objectives of the State; and
- (b) to perform on behalf of the State its community service obligations in an efficient and effective manner; and
- (c) to perform any other objectives specified in the Portfolio Act.

As part of the governance arrangements under this Act, the Portfolio Minister is required to provide a ministerial charter to each GBE. The ministerial charter sets out, amongst other things, the core business activities to be undertaken by the GBE, the performance objectives of the GBE and any general or specific Government policies with which the Minister expects the GBE to comply. The Minister for Infrastructure is currently the Minister administering the MA Act and thus the Portfolio Minister for the purposes of the GBE Act.

Part 11 of the GBE Act also covers the determination and payment of dividends. The MAIB's obligations under the GBE Act are discussed further in Chapter 5.

2.3.3 Civil Liability Act 2002

The *Civil Liability Act 2002* (Civil Liability Act), which was introduced with effect from 1 January 2003, regulates civil claims for personal injury or death and property damage. It interacts with the MA Act to impose certain restrictions on the common law damages available to people injured in motor vehicle accidents. For example, the Civil Liability Act restricts damages where the injured party's intoxication contributed to the cause of their injury. Under the legislation, the Court is to decide the extent to which damages are reduced in these circumstances, with a minimum of 25 per cent reduction to apply unless the injured party can demonstrate that a lower reduction should apply. In 2005 the Civil Liability Act was amended to reduce the discount rate for calculating the present value of amounts for future loss (including economic loss and medical expenses) from seven to five per cent. This has increased the quantum of damages awarded. All other things being equal, a lower discount rate will increase the quantum.

2.3.4 Other Requirements

2.3.4.1 Regulations

The *Motor Accidents (Liabilities and Compensation) Regulations 2000* (MA Regulations) set out various requirements on recording of data, the provision of certificates and the scheduled benefits payable by the MAIB. Included in the schedules are the types of treatment payable as medical benefits, the maximum payable funeral benefits, the value of death benefits and the limitations on medical benefits.

2.3.4.2 APRA prudential requirements

The MAIB is not obligated to follow APRA's prudential requirements as it is not a privately owned insurance company. However, the MAIB's Board considers that these requirements provide a benchmark for best practice for the insurance industry and as such it chooses to be guided by these requirements in developing policy and measuring its own position.

As requested by the Terms of Reference, the Regulator considers the appropriateness of the MAIB using APRA's prudential requirements as a benchmark to measure long term sustainability in Chapter 5.

2.4 Changes in operating environment since 2009

Since the 2009 MAIB Investigation there have been changes to both the MA Act and the MA Regulations. The amendments to the MA Act effective from 1 August 2012 are as follows:¹²

- medical/disability benefits – maximum payable increased to \$500 000 where a person has been an inpatient for more than four days;
- death benefits – maximum lump sum increased from \$62 000 to \$70 000;
- death benefits – additional children's benefits increased from \$15 000 to \$22 500, \$7 500 to \$11 250 and \$3 000 to \$4 500 respectively; and
- disability allowance – the threshold for employed person's allowance has been adjusted so that:
 - those earning more than \$400 per week are entitled to 80 per cent of their average weekly earnings;
 - those earning between \$400 per week and \$320 per week are entitled to \$320 per week; and
 - those earning \$320 per week (previously \$250 per week) or less are entitled to 100 per cent of their average weekly earnings.

¹² MAIB Submission, p. 15

2.4.1 APRA prudential requirements

As noted above, whilst the MAIB is not obligated to follow APRA's prudential requirements, the MAIB's Board has chosen to use these as it considers them a benchmark for best practice for the insurance industry.

From January 2013, new APRA Prudential Capital Standards apply which are more risk-sensitive and encourage better matching of assets with liabilities. This has implications for the minimum capital requirements MAIB has used as a benchmark.

2.4.2 Tasmanian Government road safety initiatives

As discussed in the 2009 Final Report, the MAIB is involved in a number of road safety programs, including:

- Tasmanian Motorcycle Safety Strategy – initially, MAIB made a three year commitment of \$500 000 in total directed to a range of activities to enhance rider safety. Subsidisation of the Motorcycle Road Skills Courses have continued beyond that period with the use of unexpended funds. The take up rate has been modest in the past year and additional promotion is taking place in 2012-13; and
- Road Safety Taskforce (RSTF) - initiated in July 1996 to reduce road trauma to target levels through enforcement and mass media. The RSTF was incorporated under the Road Safety Advisory Council in October 2010. The combined enforcement and educational program continued under the new arrangement with MAIB funding of \$3.48 million per annum for three years from 1 January 2012.

2.4.3 National Injury Insurance Scheme

In July 2011, the Productivity Commission proposed two distinct schemes:

- the National Disability Insurance Scheme (NDIS); and
- the National Injury Insurance Scheme (NIIS).

The NIIS is proposed to provide insurance cover for those who suffer a significant disability as a result of being injured on a no-fault basis. State and Territory motor accident schemes such as MAIB have been identified as the core existing framework around which the NIIS could be developed.

A COAG advisory group has recommended minimum benchmarks for motor vehicle accidents. These benchmarks have not been endorsed yet by COAG but would have the effect of increasing MAIB's claims liabilities relating to motor accidents. MAIB has no statistical data upon which it could make a valid prediction as to the likely increase in claims cost and impact on premiums with the implementation of this scheme.

The latest timetable is for COAG to consider NIIS stage 1 (motor vehicle) in mid-2013 with a proposed implementation date of April 2014. The calculated

break-even premium in this report does not make allowance for the introduction of the proposed NIIS and represents a material risk of increasing MAIB's claims costs. Accordingly, the MAIB has provided some indicative estimates regarding the potential impact of the NIIS on the break-even premium which are presented in Section 7.1, based on the advisory group's recommendation. Until a decision regarding NIIS is reached, it is not possible to include full costings for an expanded scheme.

2.4.4 Fair Work Australia decision

(FWA awarded significant increases to carers in a decision handed down on 1 February 2012. The increases are to be applied in nine equal steps on 1 December each year, commencing in 2012. In addition, FWA awarded cumulative annual loadings of 1 per cent per annum over the first four years of the implementation period. The weighted average increase was 24 per cent above CPI, spread over the nine years. The break-even premium calculated by the Regulator includes an allowance for this increase in Future Care costs.

2.4.5 National Heavy Vehicle Regulator

In July 2009, COAG agreed to establish single national regulators for heavy vehicles, rail safety and maritime safety. An independent regulator for all vehicles over 4.5 tonnes Gross Vehicle Mass commenced operations on 21 January 2013 with a limited set of functions, with the Heavy Vehicle National Law (HVNL) currently scheduled to commence for all jurisdictions (except Western Australia) from July 2013.

The HVNL consolidates model legislation relating to: heavy vehicle registration; heavy vehicle standards; heavy vehicle charges; mass and loading; oversize and over-mass vehicles; restricted access vehicles; higher mass limits; compliance and enforcement; heavy vehicle driver fatigue; heavy vehicle speeding compliance; the intelligence access project; and alternative compliance.

The impact of the establishment of the regulator on MAIB's operations is expected to be minimal.

The HVNL also introduces a single, national registration system for heavy vehicles. National registration will definitely not commence within the 2013 calendar year. State-based registration for heavy vehicles will continue in the interim.

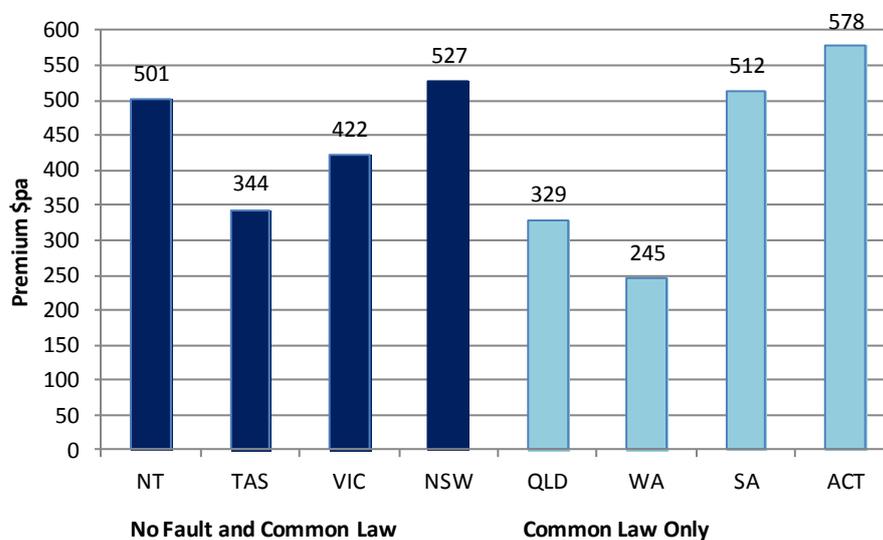
2.5 Comparison with other schemes

A simple comparison of premiums between the various schemes across Australia is difficult. As described in section 2.1, there are three general classes of schemes providing different benefits to persons injured in motor vehicle accidents. Thus, as would be expected, the level of premiums reflecting the level and type of benefits payable varies from jurisdiction to jurisdiction.

Another source of difference is in the administration of the scheme. In NSW and Queensland, the motorist is able to choose an insurer from a limited pool. In NSW, factors such as no-claims history and driver age play a significant role in determining the premium offered by these insurers. This means that the 'average' premium is not readily calculable.¹³

Research suggests that, even given these differences, Tasmanian premiums are still among the lowest in Australia. Figure 2.1 compares the 2012-13 Tasmanian premium prices with other like (no-fault) schemes, which shows that Tasmanian premiums are significantly cheaper than those in Victoria and the NT.

Figure 2.1: Comparison of metropolitan private car premiums for 2012-13



Source: MAIB Submission, p. 46.

Note: In October 2007, the NSW Government established a long term care scheme to assist people with catastrophic injuries resulting from motor vehicle accidents regardless of fault. As such, the NSW scheme now carries an element of no fault.

Figure 2.2: shows the total premium growth for private motor vehicles in all states and territories during the past four years.¹⁴

As seen in Figure 2.2: of those schemes providing both no-fault and common law benefits, Tasmania increased premiums by 3.6 per cent in the last four years which is significantly lower than the average across all Australian schemes (17 per cent), including Victoria (12 per cent).

Some states that currently operate a common law scheme are considering moving to a no-fault scheme. That is, Western Australia is currently considering changing to

¹³ There are other differences between the schemes including the use of the premium to recover different costs. For instance the Queensland premium includes a Hospital and Emergency Services levy; the premium in South Australia (SA) includes an 11 per cent 'licence fee'. In some states there are also geographic distinctions in premiums. For example, there are three regions in Victoria, two in SA and five in NSW.

¹⁴ Four year comparison is for years 2008-09 to 2012-13 for all jurisdictions.

a no-fault scheme whilst on 17 February 2013, the NSW Government announced that it intended to change to a no-fault basis with defined statutory benefits.

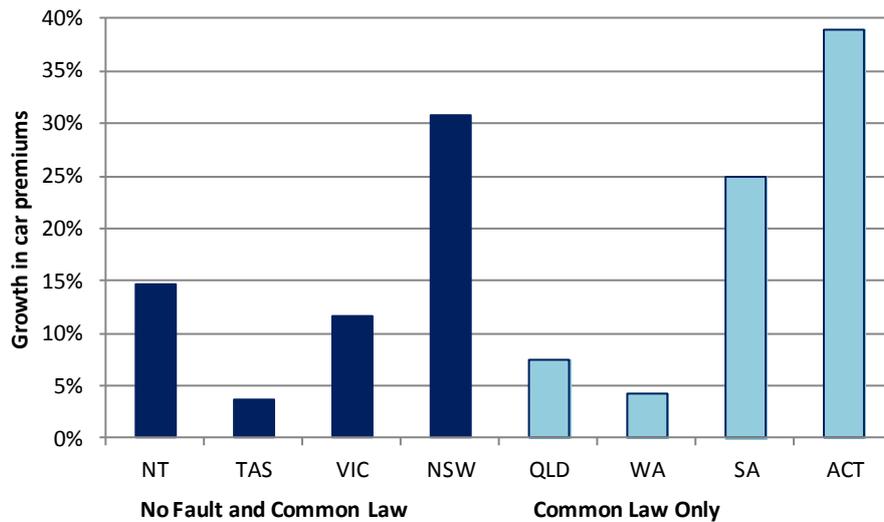
South Australia is also proposing to move to a no fault scheme and premiums are expected to reduce by about \$110. The first changes are due to come into effect on 1 July 2013.

Queensland had a reduction in premiums due to removal of the HIH surcharge and the banning of the payment of CTP commissions and incentives effective from October 2010. However, all six CTP insurers increased premiums by \$5 from January 2013 attributed to the impact of declining bond yields on the sustainability of the scheme¹⁵. This increase is reflected in Figure 2.1 and Figure 2.2.

A Scheme Entitlements and Benefits Review was conducted in 2011 and the NT Government is considering the recommendations.

Australian Capital Territory premiums increased on 1 September 2012 by 10 per cent.

Figure 2.2: Growth in average private motor vehicle premiums for the last four years



Source: MAIB Submission, p. 47.

¹⁵ See MAIB Submission, p.34.

3 BREAK-EVEN PREMIUM

3.1 Introduction

In its submission the MAIB states¹⁶ that the operations of a general insurance company can be viewed in two parts, the 'insurance' operations and the 'investment' operations. The insurance operations involve:

- receipt of premium income and income from investments held in relation to premium and claims reserves (often referred to as technical reserves); and
- claims and administration expenses.

The excess of premium income over and above expenses is termed 'insurance profit'.

Insurance profit
= premium
+ investment return on technical reserves
– claims costs
– administration expenses

Insurers also hold additional capital derived from initial capital plus retained profits (shareholders' reserves) to support growth of the business and variability associated with its operations. Income can also be earned on the investments related to these shareholders' reserves.¹⁷ Total earnings of the insurer are therefore equal to the income derived on the shareholders' reserves plus the insurance profit.

Total profit
= insurance profit
+ investment return on shareholders' funds

The level of premium charged should be enough to allow for:

- the expected cost of future claims;
- expenses incurred in the operation of the business; and
- a target profit.

¹⁶ MAIB Submission, p. 36.

¹⁷ In the public sector, to the extent that any initial capital was provided, the situation is the same.

The 'break-even premium' is the term given to the premium that would be required to meet the expected cost of claims and cover all expenses incurred.

Break-even premium	
=	expected inflated and discounted cost of claims
+	expenses

If the break-even premium were to be charged then the only profit that could be made would be returns on the investment of existing shareholders' reserves. The risk associated with the provision of insurance means that shareholders require a greater return than would be received if they were to invest their money in an investment entity. These additional returns required can be generated by building a 'profit margin' into the premiums charged so that there is a surplus remaining after all claims and other expenses have been paid. The 'average premium' is the sum of the break-even premium and the profit margin.

This Chapter discusses the costs and cost drivers of the MAIB underlying the calculation of the break-even premium. Section 3.2 describes the cost categories and cost drivers that determine the break-even premium including the MAIB's proposal for key economic assumptions that impact the break-even premium. Section 3.3 presents the MAIB's proposed break-even premium, whilst Section 3.4 analyses each component of the MAIB's proposal. Sections 3.5, 3.6 and 3.7 present the Regulator's conclusions on the break-even premium, submissions on the Regulator's draft report and the Regulator's final recommendations (or conclusions) respectively.

The calculation of the average premium is discussed in Chapter 5.

3.2 Cost categories and cost drivers

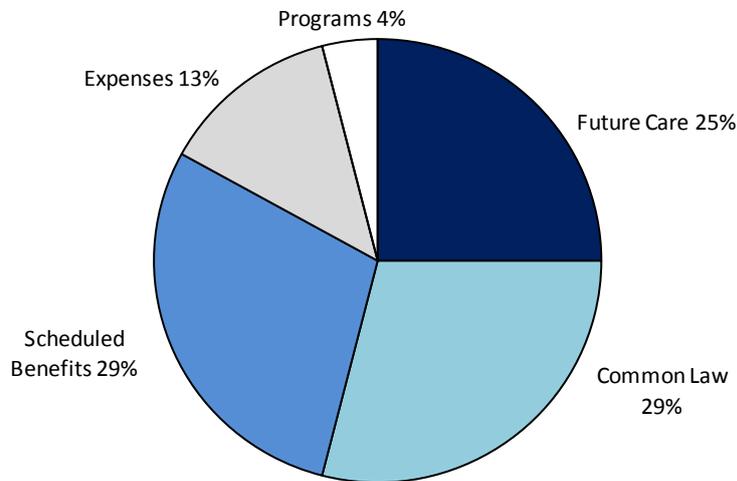
3.2.1 Cost categories

The costs of the MAIB fall into five broad categories. These include:

- common law claims cost;
- scheduled benefit claims cost;
- future care claims cost;
- program/accident prevention¹⁸ costs; and
- general expenses (including administration, reinsurance and agency costs).

The percentage breakdown of these cost items is shown in Figure 3.1.

¹⁸ Road Safety Task Force as part of the new Road Safety Advisory Council, Injury Prevention Management Foundation and the Tasmanian Motorcycle Safety Strategy.

Figure 3.1: Components of the break-even premium

Source: MAIB Submission, p. 54

Figure 3.1 shows that the costs of claims (Future Care + Common Law + Scheduled Benefits) represent by far the largest proportion of total costs at 83 per cent. The costs associated with accident prevention programs are relatively small, making up only about four per cent of the total costs. Since the 2009 Investigation, Scheduled Benefits and Future Care costs have both increased as a proportion of the break-even premium largely as a result of increases in the average cost of claims.

3.2.2 Cost drivers

The expected cost of claims is usually determined based on assumptions regarding the expected claims frequency and the average claim size.

3.2.2.1 Claims Frequency

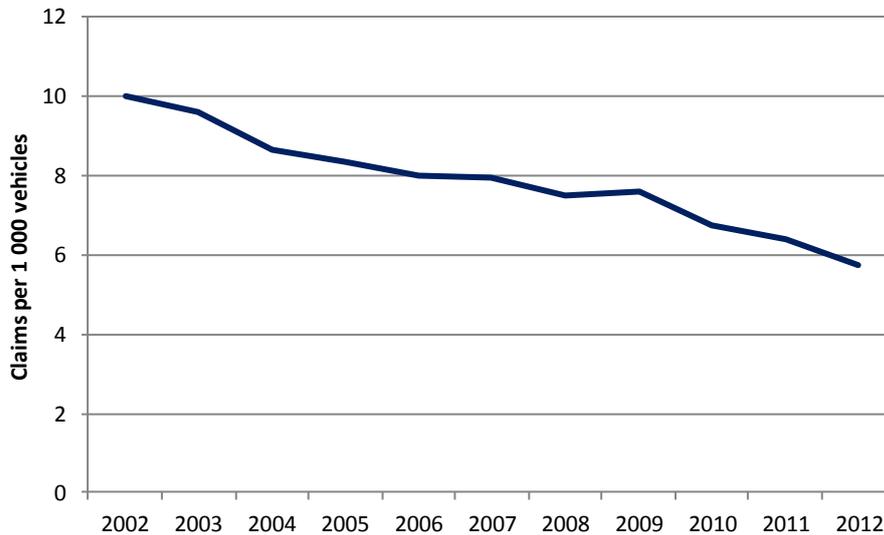
The MAIB estimates the number of claims each year for the three benefits categories:

- common law;
- scheduled benefits; and
- future care.

These estimates are then divided by the MAIB's estimates of the number of vehicles to determine the number of claims per vehicle. Claims frequency may therefore rise or fall depending on the growth in the number of claims relative to the growth in the number of registered vehicles.

Figure 3.2 presents the historical claims frequency, for all benefit types, since 2001-02. As can be seen, the claims frequency has declined by 42 per cent between 2001-02 and 2011-12.

Figure 3.2: Claims per 1 000 vehicles: 2001-02 to 2011-12



Source: MAIB Annual Reports

The Regulator notes that the MAIB has only increased its premiums once during the period covered by the previous two premium pricing orders. This is despite being allowed to increase premiums by as much as AWOTE growth each year. The Regulator understands that this declining claims frequency has been a significant contributor to the MAIB's decision to not increase premiums.

The impact of this declining trend in claims frequency is analysed for the individual benefits categories in Section 3.4.

3.2.2.2 *Claim size*

The size of claims may decrease over time as a result of, for example, less severe accidents due to lower speed limits or improved safety features in cars. Conversely, claim size could increase if costs (for example medical costs) increase faster than AWOTE¹⁹, the occurrence of which is termed 'superimposed inflation' and is discussed in section 3.2.2.6. The claim size for Scheduled Benefits, Common Law and Future Care claims are analysed in detail in Section 3.4.

¹⁹ The current MAIB Premiums Order, the *Government Prices Oversight (MAIB Premiums) Order 2009*, defines AWOTE as 'the dollar figure for full-time adult ordinary time earnings for persons set out in that part of the Average Weekly Earnings under the heading 'Average Weekly Earnings', Australia: Original. Specifically this refers to ABS Catalogue No. 6302.0 published by the Australian Bureau of Statistics.'

3.2.2.3 *Economic assumptions*

When forecasting the future cost of claims, allowance needs to be made for the impact of:

- expected future claims cost escalation which may increase the likely claim size (claims inflation); and
- anticipated investment earnings which may be earned on the premium between the time the premium is received and the time the claim payment is made (discount rate).

The break-even premium can be highly sensitive to the assumed claims inflation and discount rates. This is particularly the case with the cost of future care claims due to their size and the long term nature of those claims.

The difference between the investment return and claims inflation is the real rate of return. It is this value that determines the value of claims in the calculation of the break-even premium rather than the absolute values of either. The MAIB's assumed long term real rate of return is 3.0 per cent per annum. This represents a reduction of one percentage point from the 4.0 per cent assumed for the 2009 Investigation.

In its submission, the MAIB indicates that an average margin (above CPI) over the long-term of four to six per cent per annum was achievable prior to the GFC. This converts to a range of three to five per cent per annum above wage inflation. The lower end of the range corresponded with a reasonably diversified portfolio and the higher end of the range corresponded with a higher proportion of growth assets.

However, the MAIB's asset consultant now considers a three per cent return per annum to be appropriate having regard to current and expected future economic conditions. Specifically, the MAIB's asset consultant considers:

- that the current lower, and likely somewhat persistent, yield environment creates challenges for long term investors with inflation linked liabilities who utilise bonds, in full or in part, to match or immunise their liability portfolio;
- modelling of MAIB's strategic and current portfolio (with allowance for dynamic tilts) both reveal a median real return of 3.1 per cent per annum over a 15 year period, which means, based on the MAIB's assumptions, there is a 50 per cent chance of achieving this outcome; and
- there is strong evidence that a real return assumption of 4.0 per cent per annum coupled with an absolute return assumption for use in the Corporate Plan of 7.6 per cent are only likely to be achievable with a lower level of confidence (less than 50 per cent in both cases).²⁰

²⁰ MAIB Submission p.75.

3.2.2.4 *Claims inflation*

Future care, scheduled benefits and common law claims costs principally relate to payments for medical care and related treatment, and loss of income. Claims costs are therefore more closely linked to the costs of services, which tend to move in line with movements in salaries and wages, rather than the costs of goods. AWOTE is a general measure of changes in wages and salaries in the economy, and as such provides a reasonable basis for escalating premiums from year to year, once the premiums have been determined.

For the purpose of calculating its break-even premium the MAIB has assumed an average future increase in AWOTE of 3.6 per cent per annum (previously 3.5 per cent), based on advice from its consulting actuary and independent economic forecasts.

3.2.2.5 *Investment returns*

The MAIB's calculation of the required break-even premium assumes an investment return of 6.6 per cent per annum. This is down from the 7.5 per cent investment return assumed in the 2009 MAIB Investigation.

The average investment return over the last five years has been 5.8 per cent. Individual yearly returns have been volatile, ranging from a loss of 8.7 per cent to a high of 14.3 per cent. The MAIB considers that this volatility may also be expected to continue into the future with resultant fluctuations in annual profitability and solvency, as discussed in Chapter 4. The use of an assumed 6.6 per cent rate was supported by the MAIB's consulting actuary and is consistent with the long-term rate that the MAIB's investment advisors have indicated may be earned on the MAIB's investment portfolio.

Risk-free investment returns are based on the 10-year Commonwealth Government Bond rate. However, since there are no Government Bond rates available for terms beyond 10 years on which to base the risk-free yield, an assumption is required. The MAIB considers a reasonable approach is to calculate a maintainable 'gap' above the assumed rate of wage inflation.²¹ The MAIB's consulting actuary recommended to the MAIB that this gap should be set at 2.0 per cent, the same as the previous Investigation.

With the MAIB's long term investment returns forecast to be 6.6 per cent per annum, there is an implied margin of 1.0 per cent above the risk-free rate.

²¹ The approach adopted by the MAIB for calculating the 'gap' is only one of a number of different methodologies used in the insurance industry. However, the Regulator accepts the MAIB's approach as being consistent with the approach adopted in previous investigations.

3.2.2.6 *Superimposed Inflation*

When growth in claims costs outstrips 'normal' claims inflation as measured by AWOTE, the amount above AWOTE is termed superimposed inflation. The MAIB's submission states that²²:

Sources of superimposed inflation include increased utilisation of more expensive services, and new precedents and heads of damage in common law awards.

The MAIB regularly investigates the growth in claims costs. It considers that above-AWOTE growth in claims costs has been evident in the past, and assumptions for superimposed inflation are built into the MAIB's calculation for the break-even premium. The assumed rates of superimposed inflation in its calculation of the break-even premium are as follows:

- scheduled benefits: 1.5 per cent per annum;
- common law: 0.75 per cent per annum; and
- future care: zero per cent per annum.

These rates are consistent with those used in previous investigations and those used in evaluating outstanding claims liabilities as at 30 June 2012. The allowance for superimposed inflation combined with the assumed AWOTE, results in the rate of claims escalation for each category applied by the MAIB being as follows:

- scheduled benefits: 5.1 per cent per annum;
- common law: 4.35 per cent per annum; and
- future care: 3.6 per cent.

3.2.2.7 *Economic assumptions – Regulator's conclusions*

With regards to investment returns and the real rate of return, the Regulator engaged the actuary firm Finity to review the MAIB's proposal. In the opinion of the fund managers and asset consultants contacted by Finity, the MAIB's proposed reduction was not out of line with market expectations, which have reduced somewhat over the past four years.²³ This is consistent with the view expressed by the MAIB's asset consultant in the MAIB's submission as discussed above.

Given the importance of the investment return in determining the breakeven premium, the Regulator considered other sources of data in assessing the MAIB's proposal.

²² MAIB Submission, p. 76.

²³ Finity (2013) "Motor Accidents Insurance Board Pricing Investigation 2013" report prepared for the Tasmanian Economic Regulator, p.25.

In its report to the Regulator, Finity also presented data on the investment rate, real rate of return and the relative share of growth assets to defensive assets in investment portfolios for the MAIB and for other CTP schemes in Australia and New Zealand. These are presented in Table 3.1 below. Table 3.1 shows all jurisdictions are generally targeting similar real rates of return above wage inflation and total target investment rates. However, there are differences in the proportion of growth assets assumed to achieve these target investment returns. For example, the MAIB is assuming a similar investment return compared to South Australia and New Zealand both of which have a relatively greater percentage of defensive assets. Furthermore, the MAIB is forecasting smaller investment returns than Victoria despite holding a similar proportion of growth stocks. The exception is Western Australia which is targeting a similar investment return with a similar portfolio of growth assets to the MAIB. The lower real rate of return in Western Australia is due to much faster wage growth relative to other states. Whilst the MAIB appears similar to other schemes, it may be said that on balance the MAIB's assumption are relatively more conservative with the exception of Western Australia.

Table 3.1: Investment return assumptions of other relevant schemes

CTP Schemes	Inflation assumption	Real rate of return above AWE ^{Note 2}	Long term assumed investment rate ^{Note 1}	Growth asset proportion
MAIB (Tas)	Tas AWOTE	3.0%	6.6%	63%
TAC (VIC)	CPI over rolling 5 year periods	3.5%	7.5%	70%
MAC (SA)	AWE	3.0%	6% - 7%	42%
ICWA (WA)	CPI over rolling 7 year periods	2.0%	6.4%	68%
NZ (ACC MV)	AWE	3.0%	6.5%	42%

Source: Finity, based on annual reports.

Note: 1. Investment return expected over the term of liabilities.

2. TAC (Vic) and ICWA (WA) estimated assuming 1.5% margin between CPI and wage inflation.

In forming its view on the real rate of return, the MAIB's asset consultant considered forecast returns over a 15 year period for MAIB's current and strategic asset portfolios. MAIB's asset consultant's modelling forecast a median real return of 3.1 per cent per annum over a 15 year period with a 50 per cent probability of achieving this outcome.

The Regulator also considered the mean and median returns over two historical periods and the impact of the GFC in 2008 and 2009. The results are presented in Table 3.2 and Table 3.3 below. The tables show that the real rate of return changes quite substantially depending on both the time period chosen and whether returns include or exclude the impact of the GFC.

Table 3.2: Investment returns – financial years ending 30 June 1992 to 30 June 2013

Measure of Return	Investment returns on total assets (%)	Investment returns on total assets net of AWOTE (Real Rate of Return) (%)	Investment returns on funds invested ²⁴ (%)	Investment returns on funds invested AWOTE (Real Rate of Return) (%)
Median return	7.7	4.0	8.1	4.7
Average return	7.0	3.2	7.3	3.9
Median return (exc 2008 & 2009)	8.3	5.3	8.6	5.9
Average return (exc 2008 & 2009)	8.5	4.6	8.8	5.4

Source: MAIB data.

Table 3.3: Investment returns – financial years ending 30 June 2000 to 30 June 2013

Measure of Return	Investment returns on total assets (%)	Investment returns on total assets net of AWOTE (Real Rate of Return) (%)	Investment returns on funds invested (%)	Investment returns on funds invested AWOTE (Real Rate of Return) (%)
Median return	7.7	2.6	8.1	3.2
Average return	6.1	2.0	6.4	2.2
Median return (exc 2008 & 2009)	8.5	3.7	8.9	3.9
Average return (exc 2008 & 2009)	8.4	4.0	8.8	4.3

Source: MAIB data.

Finally, Table 3.4 compares the real rate of return, the investment rate and the relative proportion of the MAIB's capital invested in growth assets assumed for all previous pricing investigations. As can be seen the proposed real rate of return is the lowest for the MAIB, despite having the largest proportion of growth assets.

²⁴ The investment returns on funds investments were not provided for the years 1992 – 2000, therefore estimated returns were calculated by adding the median of the difference between the investment returns on total assets and investment returns on funds invested for the years 2000 to 2013 to the investment returns on total assets for the years 1992-2000.

Table 3.4: Investment return assumptions – previous GPOC investigations

Investigation period	AWOTE	Real rate of return	Investment rate	Growth asset proportion
1997	4.5%	4.5%	9.0%	n.a.
2000	4.0%	4.0%	8.0%	22%
2003	4.0%	4.0%	8.0%	47%
2006	4.0%	4.0%	8.0%	59%
2009	3.5%	4.0%	7.5%	56%
2013 (proposed)	3.6%	3.0%	6.6%	63%

Source: Previous GPOC reports.

The Regulator understands that forecasting the real rate of return and investment return is a difficult task. Any decision needs to balance different factors and sources of information and the final decision will be heavily dependent on how much weight is placed on those various information sources. Whilst the Regulator is concerned about the proposed investment returns it accepts the views of the MAIB's asset consultant and that of Finity. However, the Regulator considers the impact of maintaining the current four per cent real rate of return in its sensitivity analysis in Section 5.3.

The Regulator also asked Finity to review the MAIB's proposal with respect to superimposed inflation. Finity reviewed historical data provided by the MAIB and analysis undertaken by the MAIB's actuary consultant. Finity concluded that "the rate of superimposed inflation adopted in the MAIB's break-even premium is consistent with experience, in line with ranges we have observed in other jurisdictions (aside from Future Care) and therefore appear reasonable."²⁵

Estimating any potential superimposed inflation for Future Care is problematic. The number of claims is very low which makes it difficult to determine a reasonable representative average. Furthermore, the mean term for payments is very long which means that the history of average claim sizes includes a considerable amount of estimation, as they continue to be paid well into the future. The MAIB's actuary estimates that claim sizes grew by 2.7 per cent between 1995 and 2010, However this figure reduces to zero per cent if 2008 to 2010 are excluded. Furthermore, Finity notes that the MAIB's actuary's April 2012 investigation of superimposed inflation rates did not show any trends in the accident year half year incurred costs. Finity also note that "While no two schemes exhibit exactly the same timing, quantum, duration and drivers of bouts of superimposed inflation, it is unusual to have zero on Future Care liabilities. However, the experience of MAIB supports this assumption".²⁶

²⁵ Finity (2013) "Motor Accidents Insurance Board Pricing Investigation 2013" report prepared for the Tasmanian Economic Regulator, p.22.

²⁶ Ibid, p.22.

Furthermore, Section 3.4.3.1.2 discusses the MAIB's proposal for the average claim size for Future Care which includes a specific adjustment for the increase in care costs due to a recent decision by Fair Work Australia. The MAIB notes that this ordinarily might be considered a burst of superimposed inflation. An allowance has therefore already been considered for one specific contributing factor to superimposed inflation.

3.2.2.8 Economic assumptions – Regulator's final recommendations

Given the above, the Regulator accepts the MAIB's economic assumptions as proposed. However, the Regulator considers the impact of a higher real rate of return, i.e. the current four per cent instead of the MAIB's proposed three per cent in its sensitivity analysis in Section 5.3.

3.2.3 Approach to claim liability valuations

The value of claims (calculated each year) is dependent on the expected cost of claims and the assumed claims escalation rate (claims inflation) and discount rates.

The MAIB seeks regular actuarial advice regarding the valuation of its outstanding claims liabilities. As highlighted in the MAIB Submission²⁷, the following changes have either been recently introduced or are expected to arise during the pricing period, and have been considered in valuing the MAIB's claims liabilities in addition to the regular review of claims experience assumptions. These include:

- revision of its estimate of its real rate of return from 2.0 per cent down to 1.0 per cent as discussed in Section 3.2.2.3 above;
- an allowance for an increase in carer costs for Future Care claimants following a FWA decision handed down on 1 February 2012;
- an allowance for an increase in hospital bed-day rates from 1 July 2013; and
- an allowance for an increase in Ambulance Tasmania fees.

These last three items are analysed in Section 3.4, whilst the claims liability valuation methodology in general is considered in more detail in Chapter 4 at section 4.3.

3.3 MAIB's proposed break-even premium for 2013-2017

In its submission, the MAIB calculated²⁸ that the estimated average break-even premium required for the period 1 December 2013 to 30 November 2017 is \$258.²⁹ The main assumptions and components of the break-even premium are derived by

²⁷ MAIB Submission, p. 20.

²⁸ Ibid, p. 50.

²⁹ Excluding GST and duty.

considering the trends and future outlook for key cost drivers. These assumptions, and the values of the cost components, are listed in Table 8.1 of the MAIB's submission and discussed in the following section.

3.4 Analysis of the break-even premium

As described in section 3.2.1, the MAIB's costs can be broadly broken into five categories:

- scheduled benefits;
- common law;
- future care;
- general expenses; and
- other programs.

Before reviewing these cost categories, the Regulator has considered the impact of any changed assumptions used to estimate the outstanding claims liability.

3.4.1 Scheduled benefits

Section 23 of the MA Act states that:

- (1) the Board must pay benefits prescribed by the regulations if a person who is a resident of this State suffers personal injury resulting directly from a motor accident; and:
 - (a) the motor accident occurs in this State; or
 - (b) the motor accident occurs in another State or a Territory of the Commonwealth and involves a motor vehicle registered in this State.
- (1A) the Board must pay benefits prescribed by the regulations if a person who is not a resident of this State suffers personal injury resulting directly from a motor accident and:
 - (a) the motor accident occurs in this State; and
 - (b) the motor accident involves a motor vehicle registered in this State.

Table 3.5 provides a summary of the scheduled benefits payable to persons injured in motor vehicle accidents in Tasmania.

Table 3.5: Summary of scheduled benefits

Scheduled benefit type	Benefit available
Income benefit	<ul style="list-style-type: none"> ▪ 80 per cent of earnings, up to a maximum of three times average weekly earnings (AWE) ▪ seven days excess period ▪ maximum of two years for those unable to continue their usual work ▪ under certain circumstances, a person may also be eligible for allowance payments for periods falling within the following three years.
Medical and disability benefits	<ul style="list-style-type: none"> ▪ up to \$400 000 ▪ Includes the cost of medical, ambulance, hospital (public or private, shared room only), physiotherapy, chiropractic, optical, dental treatment, etc. reasonably and necessarily incurred, together with the reasonable cost of medical appliances, equipment, alterations to building or vehicles, attendant care and the cost of travel to obtain treatment under certain circumstances.
Funeral and death benefits	<ul style="list-style-type: none"> ▪ Funeral benefits, payments to dependants of the deceased person or counselling services to assist family members with the loss, are payable in accordance with the prescribed maximum sums in the legislation.
Housekeeping allowance	<ul style="list-style-type: none"> ▪ Payable where an injured person is wholly disabled, by reason of the injury, from carrying out household duties which are normally carried out by that person at least once per week. Housekeeping allowance may be paid for up to 26 weeks (or 39 weeks in some instances) from the date of the accident (maximum weekly amount applies)

Source: MAIB Claims procedures and Scheduled Benefits payable, available at <http://www.maib.com.au/publications>

3.4.1.1 MAIB's assumptions

3.4.1.1.1 Claims frequency

The MAIB's consulting actuary modelled scheduled benefits based on the number of general claims reported rather than just those receiving scheduled benefits. The number of general claims will always be higher than the final number of scheduled benefit claims as many claims are either denied, ineligible, not pursued or are settled directly at common law. The MAIB's submission³⁰ states that general claims provide a useful benchmark on the emerging claims volume, which is also a lead indicator of overall financial performance. This approach was also adopted in previous pricing investigations.³¹

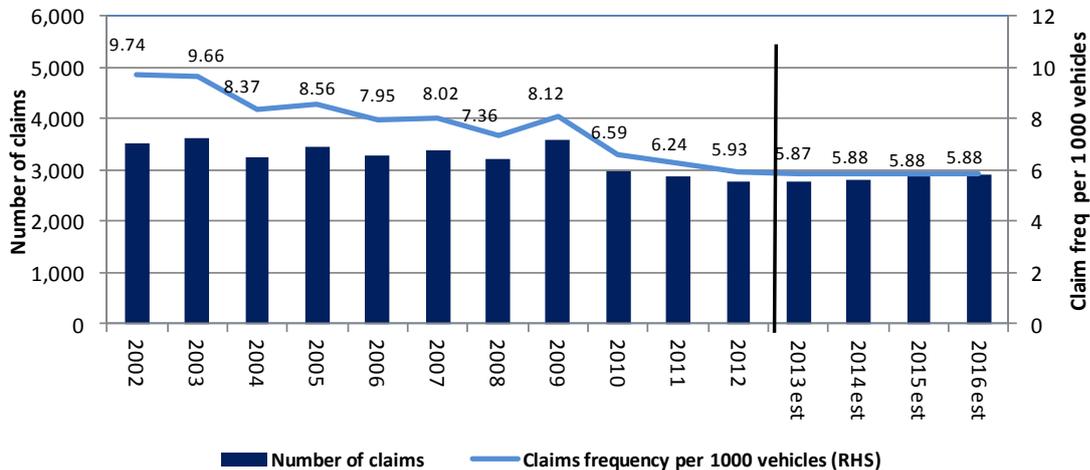
Figure 3.3 depicts the number of incurred claims, both reported and incurred but not reported (IBNR), and the frequency (ie number of claims per 1 000 registered vehicles) for the period 2001-02 to 2011-12 and the forecast values out to 2016-17. General claims frequency has continued to improve each year. More recently, general claims frequency has reduced by around 20 per cent between 2007-08 and 2011-12.

³⁰ MAIB Submission, p. 64.

³¹ The MAIB's consulting actuary notes in their annual outstanding claim liability review reports for the MAIB that the estimated average claim size for scheduled benefits is also averaged over the estimate number of general claims. This means that when the total dollar amount of all scheduled benefits claims is estimated, the impact of using general claims is effectively netted off.

There is no expectation from the MAIB of a further reduction in claims frequency in the near future.

Figure 3.3: Trend in general claims frequency



Source: MAIB Submission, p. 65 and GPOC Report 2009.

Note: RHS = Right hand side.

MAIB Assumption 1: based on recent experience, the MAIB has assumed a general claims frequency of 5.88 claims per 1 000 vehicles for 2013-14.

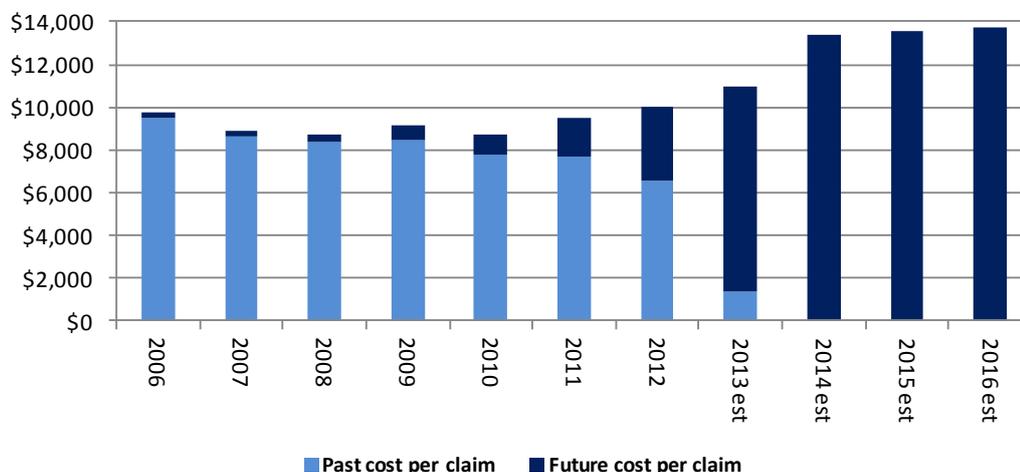
3.4.1.1.2 Average claim size

Figure 3.4 shows the average estimated scheduled benefit claim size by accident year ending 30 June based on 31 December 2012 values without allowance for future inflation and discounting. The costs are split into two parts:

- the average cost paid to date; and
- the expected future average outstanding liability.

When compared to common law claims, a greater proportion of costs for recent accident years are known since scheduled benefit claims are generally paid more quickly than common law claims. Thus, for years prior to 2012-13 the final claims cost is known with a reasonably high degree of confidence.

Figure 3.4: Average size for scheduled benefits claims for accident year ending 30 June



Source: MAIB Submission, p. 66

The average claim size was reasonably steady between 2007 and 2011 with slight increases in recent years. However, the MAIB is forecasting a large increase in the average claim size from 2014. This is due to the following factors:

- the Tasmanian Department of Health and Human Services (DHHS) has informed the MAIB that the current hospital rate it is charged is too low to cover costs and will be increased following a move to a new funding model with the Commonwealth based on an efficient price for every service delivered.³² To account for this future increase in costs, the MAIB has doubled its hospital bed-day cost rate. The Regulator understands that hospital bed-day costs represent approximately 35 per cent of current claims costs; and
- the MAIB has also been advised that it is to be charged for medical escort fees, where a medical escort is required to accompany a patient to major hospitals and for retrieval. Furthermore, Ambulance Tasmania has advised the MAIB that it will be seeking a fee increase of 10 per cent. As a result, the MAIB considers that Ambulance Tasmania fees may increase by \$500 000. This would be a one-off step change in fees followed by normal indexation.

Following these large one-off changes, the MAIB is forecasting a small upward trend in average claim size reflecting assumed increases in costs in line with AWOTE plus 1.5 per cent superimposed inflation.

MAIB Assumption 2: average scheduled benefits claim size of \$13 736 inflated and discounted to 31 May 2014, the mid-point of the period over which the premium will be collected. The amount excludes GST.

³² MAIB Submission, p. 66.

3.4.1.2 MAIB's proposal

The estimated scheduled benefits cost per vehicle in the MAIB's submission is based on the forecast claims frequency times the forecast average claim size and divided by the forecast number of registered vehicles.

The total estimated scheduled benefits cost per vehicle for the break-even premium is \$80.80 (inflated and discounted to 31 May 2014 values). This is 33 per cent higher in real terms (i.e. adjusted for comparative purposes using movements in AWOTE) than that assumed by the Commission in the 2009 MAIB Investigation Final Report.

In line with the findings of an analysis of historical rates of claims cost growth, allowance has been made in the break-even premium for superimposed inflation. Future scheduled benefits claims costs are assumed to increase in line with AWOTE plus 1.5 per cent.

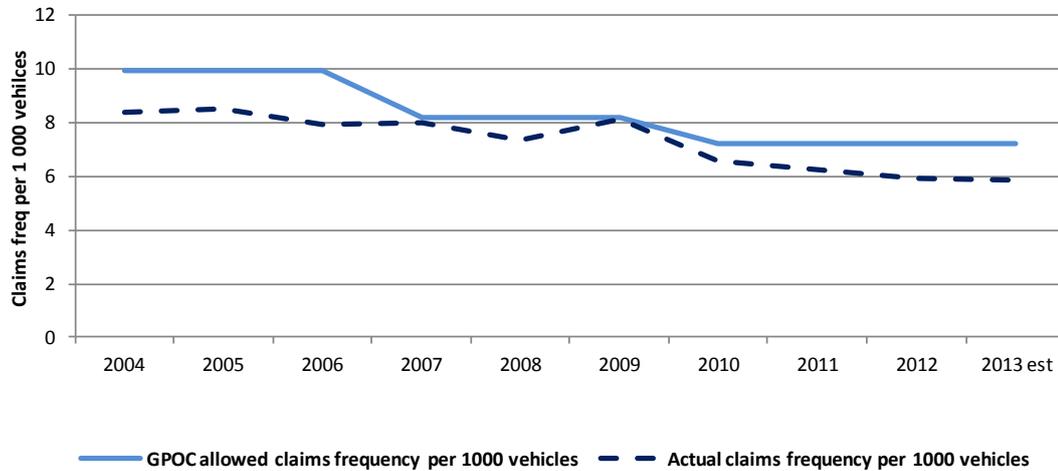
3.4.1.3 Scheduled Benefits – Regulator's conclusions

The MAIB's most recent claims experience with respect to scheduled benefits has been favourable i.e. the number of claims has fallen slightly whilst vehicle numbers have risen. This has resulted in a substantial reduction in the claims frequency over recent accident years. Furthermore, the average claim size has remained steady with only a slight increase in recent years. The impact of the small increase in claim size is more than countered by the decrease in the claims frequency, resulting in the average cost per vehicle decreasing from \$72.80 in 2009 to \$57.50 in 2012. That said, the MAIB is forecasting a large increase in the expected cost of scheduled benefits to \$80.80 due to a large expected increase in the average claim size and constant claims frequency.

3.4.1.3.1 Claims frequency

In previous investigations, the Commission considered that the downward trend in claims frequency was unlikely to be maintained however claims frequency has continued to decline. Figure 3.4 compares the claims frequency rate adopted by the Commission in previous investigations to the actual claims frequency rate for scheduled benefits. As can be seen, actual claims experience is lower than the allowed claims experience each year. Furthermore, actual claims experience exhibits a strong downward trend.

Figure 3.5: Actual versus GPOC allowed scheduled benefits claims frequency for accident year ending 30 June



Source: MAIB Submission, p. 65 and previous GPOC Investigations.

This trend has occurred for two reasons: a decreasing number of claims and an increasing number of registered vehicles.

The reduction in claims numbers would appear to be due to improvements in road safety or driver behaviour through initiatives such as the Road Safety Advisory Taskforce (RSTF).³³ This is despite increasing population and increases in the number of registered vehicles and the number of licensed drivers. Previously, it was considered that the benefits of decreasing absolute claims numbers from expenditure on the RSTF would be difficult to maintain without considerable extra expenditure. Despite the recent experience, the Regulator agrees that the point of diminishing absolute returns may be approaching. Given this, the Regulator considers that absolute claims numbers are unlikely to continue falling and this may slow the decline in claims frequency per 1 000 vehicles.

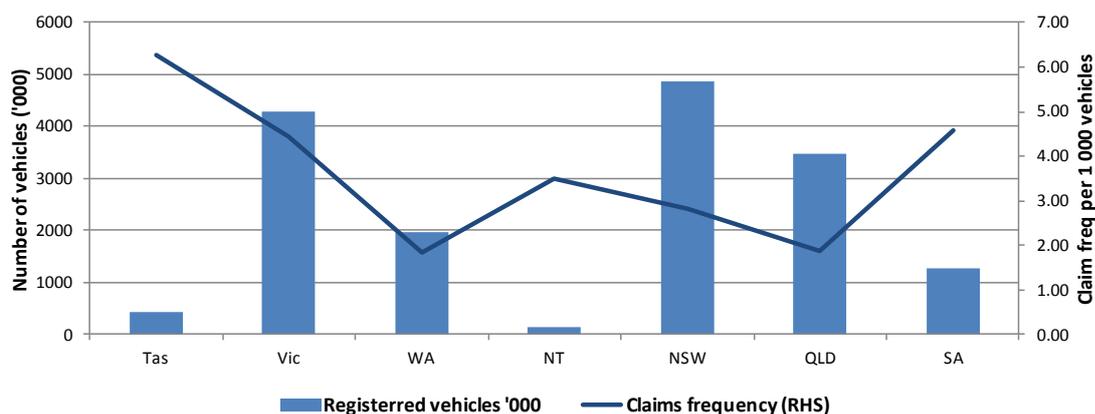
However, given recent experience, the Regulator considers that vehicle numbers will continue to grow. Since 2009 vehicle registration growth has ranged from 2.6 per cent to 1.2 per cent. Given this, the MAIB's forecast vehicle growth of 1.0 per cent in 2014 and 1.5 per cent thereafter would not appear to be unreasonable. Whilst this growth would appear to be slowing, it is still growing faster than claim numbers (which have been falling as discussed above). The Regulator believes it reasonable to expect that the additional vehicle numbers are not subject to the same exposure as the existing vehicle stock, i.e. a household's second vehicle with lower usage than the primary vehicle (although this would somewhat be offset by the increase in new primary drivers). The combination of these effects may continue to put downward pressure on claims frequency per 1 000 vehicles.

Figure 3.6 below presents data on the number vehicles registered and the claims frequency for each jurisdiction in Australia. As can be seen, Tasmania has the

³³ See Woolley, J.E, and Raftery, S.J. (2011) "Evaluation of the Road Safety Task Force 2008 to 2010", Centre for Automotive Safety Research, University of Adelaide, p.29.

highest claims frequency whilst the larger jurisdictions exhibit smaller claims frequencies and much greater number of vehicle registrations. At a very simple level this may suggest that there may be economies of scales in terms of declining claims frequency per 1 000 vehicles with increases in the number of registered vehicles.

Figure 3.6: Comparison of claims frequency and number of vehicles per jurisdiction



Source: MAIB Submission, Appendix B.

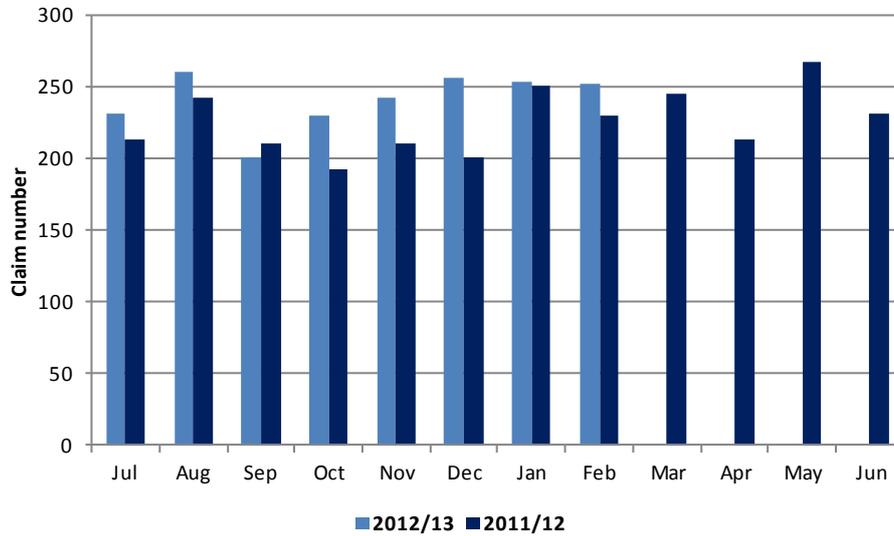
However, the MAIB has noted that direct comparisons between different schemes are not possible due to the different characteristics of each scheme and the associated potential for attracting claims. For example, for common law schemes claims are only lodged if it can be established that one party was at fault. This differs from a no-fault scheme which includes all multi vehicle accidents regardless of who was at fault. Furthermore, no-fault schemes include claims for single vehicle accidents, unlike common law schemes. Tasmania also has a higher claim frequency compared to other no-fault schemes such as in Victoria because the Victorian scheme charges an excess on claims. The Regulator understands that in Victoria, some claimants are responsible for the first \$584³⁴ of any claim before receiving benefits from the TAC. Thus if the cost associated with an incident to a party is less than \$584, the party is unlikely to lodge a claim with the TAC. The MAIB also considers that the public transport system in Victoria is more comprehensive than Tasmania which may keep many motor vehicles off the road, leading to less risk and less claims.

Furthermore, the MAIB considers that the trend of decreasing claims frequency is unlikely to continue. Figure 3.7 compares the claims received per month for 2011-12 and for the year to date for 2012-13. The number of claims lodged in 2012-13 has been higher than the previous year in seven out of eight months and the MAIB considers that it is more than likely that total claim lodgements in 2012-13 will be around 10 per cent higher than 2011-12. Vehicle growth on a rolling 12 month basis is 1.1 per cent. The MAIB considers that it is possible it has not only witnessed the end of reducing claim numbers but possibly, may be seeing the start of a small increase. Whilst the Regulator appreciates this recent evidence, it notes that claims

³⁴ See <http://www.tac.vic.gov.au/making-a-claim/claiming-expenses-2/the-medical-excess>

frequency has risen for individual years in the past, such as for 2008-09, however the longer term downward trend has continued.

Figure 3.7: Number of claims received by claim date



Source: MAIB data.

The Regulator considers that the key is to determine what is an accurate trend to apply to forecast claims frequency for Tasmania that would benefit Tasmanians without putting undue financial pressure on the MAIB. One method would be presume that the number of claims does not change (halting the trend observed) but allowing for continued vehicle growth. Using this method, the number of claims per 1 000 vehicles would fall from 5.87 as estimated by the MAIB for 2013 to 5.53 by 2017, the final year covered by the premium pricing order that will result from this Investigation. Given that the Regulator determines the breakeven premium for the first year of the pricing period and then applies inflators to premiums thereafter, if this approach were adopted the average of expected four year claims experience would appear to be an appropriate parameter to use. This provides an estimated claims frequency of 5.65 which is less than the 5.88 claims frequency proposed by the MAIB. This method is incorporated into the Regulator’s sensitivity analysis in Section 5.3.

The MAIB considers that given the substantial claim frequency reductions achieved over the past 16 years, a continued decline is unlikely. Furthermore the MAIB considers that the current cautious approach to estimation is more appropriate.

The MAIB also notes that the maximum increases provided in previous Premium Orders have provided MAIB with the flexibility to increase premiums or keep them on hold if required i.e. if its claim frequency experience warrants an increase in premiums. The MAIB's consulting actuary conducts an annual review of premium requirements for MAIB. During this review process the actuary considers, amongst other things, the recent experience of claims frequency and claim cost. An assessment of these items leads to the following conclusions:

- increase premiums if claim costs rise (through AWOTE and superimposed inflation rates) and claim frequency remains the same or rises;
- maintain the same level of premiums if claims costs rise but claim frequency falls; or
- maintain the same level of premiums if both claims costs and claim frequency fall.

Based on the MAIB's consulting actuary's recent annual assessments the MAIB has decided that it has not been necessary to increase premiums because increasing claim costs have been off-set by the reduction in claim frequency. The MAIB notes that this contrasts with other schemes in Australia which have also experienced reductions in claim frequency, but which have increased premiums in line with inflation. The MAIB considers that by not imposing unwarranted premium increases, MAIB has demonstrated that the flexibility of the current arrangements is totally appropriate i.e. should a premium order be framed on the basis of declining frequency, this flexibility would be removed. This is because if claims frequency does remain stable or increase, then the MAIB would not have the authority to increase premiums to recover those increases in costs.

Whilst the Regulator considers that claims frequency could continue to decline, based on historical experience, the Regulator has decided to accept the MAIB's proposals. The Regulator considers that the flexibility allowed for by the premium order, and the evidence of the application of that flexibility by the MAIB over the past seven years is appropriate in the circumstances.

That said, the Regulator recommends that the MAIB undertake further detailed investigation of the influences of its claims frequency for the next Investigation. This should include, among other things, the age and characteristics of the current and likely future vehicle fleet and the demographics and age of drivers including risk characteristics. The aim of this research should be to better inform the likely pattern of claims frequency into the future and when it may stabilise.

3.4.1.3.2 Average claim size

The MAIB is forecasting a substantial increase in the average claim size as discussed above. Table 3.3 below presents the breakdown of this increase on the average cost per vehicle for schedule benefits. As can be seen the largest change is for the forecast increase in hospital costs. Each individual component of the change in cost is analysed below.

Table 3.6: Difference between cost per vehicle for scheduled benefits in 2009 and 2013, inflated and adjusted to 31 May 2014 dollars

Cost categories	\$/vehicle	Percentage of total difference
Hospital costs	20.1	63.8
Ambulance Costs	1.1	1.1
Superimposed inflation (based on 1.50% above AWOTE)	3.4	10.8
Change in discount rate	1.1	3.5
Third party recoveries	4.5	14.3
Other costs	1.3	4.1
Total ^{Note 1}	31.5	100.0

Source: MAIB Submission page 51 and OTTER analysis.

Note: 1. This total is based on Table 8.2 of the MAIB submission, however it has been adjusted to take into consideration the lower claims rate in 2013 compared to 2009. This allows for a more direct comparison between the claims value sub components.

With regards to hospital bed-day costs the MAIB provided copies of letters it had sent to, and received from the Tasmanian Department of Health and Human Services (DHHS). This correspondence indicated that DHHS will be funded by the Commonwealth under the National Health and Hospitals Networks reforms and will receive funding based on the efficient price of services as determined by the Independent Hospital Pricing Authority. In line with this, DHHS plans to review the fees it charges the MAIB for claimants of hospital services. In its submission and in response to this potential future increase, the MAIB proposed a doubling of hospital costs in its break-even premium.

The Regulator held discussions with DHHS to better understand the likely timing and magnitude of any hospital fee increase for the MAIB. DHHS indicated that the review of MAIB charges had been delayed and is unlikely to occur for 12 to 18 months. Furthermore, it is unclear at this stage what the quantum of changes to MAIB charging may be. Given this, the Regulator understands that the MAIB will continue to be charged current hospital bed day rate as set out in the *Health (Fees Regulation) 2007* which is indexed each year to CPI.

Given this evidence, the Regulator has decided not to accept the proposed doubling of hospital costs by the MAIB.

With regards to the expected increases in ambulance costs, the Regulator understands that this has occurred due to DHHS commencing to charge medical escort fees that were previously not charged together with an increase in overall fees following a current ambulance fee review by DHHS of which the Regulator understands will be in effect as at the start of the pricing period. The MAIB provided correspondence to the Regulator between itself and the DHHS that outlined these figures. The MAIB's estimate for medical escort fees is based on the fees charged by DHHS during 2011-12. The overall fee increase estimate is based on the current

ambulance fees paid by the MAIB and the proposed percentage ambulance fee increase DHHS is seeking from its review.

The Regulator recommends accepting the MAIB's proposal due to a high level of certainty that the fee increase will occur based on the current status of the ambulance fee review. The fee increase will be a one-off step increase of approximately \$500 000 which will be passed on to premium holders with normal indexation applying thereafter. The MAIB is unable to influence the quantum of the ambulance fee increases.

With regards to superimposed inflation rate applied to the base level of average claims costs, the Regulator notes that the 1.5 per cent superimposed inflation rate is in line with what has historically been applied by the MAIB and agreed to in previous investigations. Furthermore, it is consistent with historical experience as presented to the Regulator by the MAIB's actuary consultant and reviewed by the Regulator's consultant Finity. This was discussed in more detail in Section 3.2.2.6 and the Regulator accepts the MAIB's proposed superimposed inflation rate.

The change in the discount rate from 4.0 per cent to 3.0 per cent as discussed in 3.2.2.3 above means effectively less money can be earned from investing premiums until claims liabilities need to be paid. This therefore increases the cost of claims once inflated and discounted. The Regulator considers that the change in the discount rate is appropriate and consequentially accepts the impact of this change on the scheduled benefits average claim size.

Third party recoveries relate to the amount of funds that the MAIB can recover from external parties involved in an accident. The Regulator understands that typically this involves an interstate driver and vehicle in which the MAIB can claim funds from the interstate jurisdiction's compulsory third party insurer. The Regulator understands that the MAIB were previously over-estimating the amount of third party payments they would receive when estimating their outstanding claims liability. The Regulator has reviewed the changes made by the MAIB and considers them to be reasonable.

The final category in Table 3.6 relates to a number of smaller items including differences in assumptions between inflation rates and vehicle growth. The Regulator considers that these differences are reasonable.

Given the evidence discussed above, the Regulator considers that the MAIB's average claim size for scheduled benefits should be reduced by the value of the MAIB's estimated increase in hospital costs. This reduces the average claim size from \$13 741 to \$10 179.

As such, the Regulator's recommends an alternative break-even premium based on an expected claim frequency of 5.88 claims per 1 000 vehicles with an average claim size of \$10 179 for 2013-14.

The scheduled benefits claims costs per vehicle for the Regulator's proposal is calculated to be \$59.90 compared to the MAIB's \$80.80 per vehicle.

3.4.2 Common law

The common law system is permitted to award damages generally and for loss of earnings, but as previously noted, the MA Act specifically excludes payments for future care.

Persons injured in motor vehicle accidents in Tasmania who can attribute fault to a negligent party may initiate an action in tort for damages for personal injury. In these circumstances, under section 17 of the MA Act, the MAIB may take over the negotiations and take charge of the legal proceedings.

The MA Act requires any party who is notified of a common law claim being made against them to notify the MAIB. No person is permitted to admit liability or agree on a settlement in respect of any third party liability without the MAIB's written consent. This protects the MAIB's right to be heard as the third party insurer.

In practice, the MAIB is notified of a potential claim by a claimant's solicitor. It is MAIB policy to recommend legal counsel for persons who wish to pursue a claim at common law, to ensure that their interests are protected. Upon notification of a claim, the MAIB will investigate the issue of liability with the assistance of an investigator or solicitor, or by utilising the statements provided.

Scheduled benefits are payable while the common law claim is underway. With the exception of future care benefits, scheduled benefits cease upon settlement of the common law claim, and damages are reduced by the amount of any scheduled benefits payments.

The main features of common law claims are:

- a plaintiff is entitled to damages only if it can be proved on balance of probabilities that the injury was the fault of the defendant i.e. it was the defendant's failure to take reasonable care of the plaintiff's safety that caused the injury;
- damages are reduced to the extent of the plaintiff's contributory negligence (e.g. failure to wear a seat belt or alcohol use);
- damages are assessed 'once and for all';
- damages are designed to provide 'full compensation' for both the economic loss and non-economic loss suffered by the plaintiff;³⁵
- under the *Fatal Accidents Act 1934*, damages are available to dependant relatives of persons killed as a result of another person's negligence;
- litigation can be commenced at any time within three years or, upon application, up to six years by virtue of the *Limitations Act 1974*; and

³⁵ Except 'future care' claimants who cannot seek damages to cover future care costs as specified in section 27A of the *Motor Accidents (Liabilities and Compensation) Act 1973*.

- there is a maximum cap on economic loss of three times average weekly earnings.

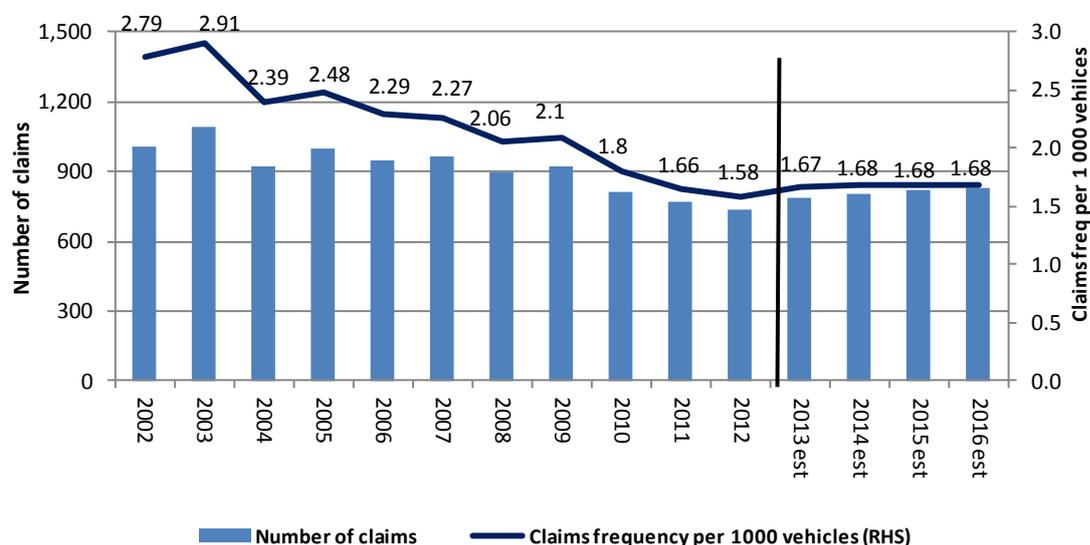
Damages are valued after allowing for the future effects of inflation, investment returns and the impact of taxation. This is done by applying a discount rate to the expected future costs or loss of earnings incurred by the injured party. The current discount rate³⁶ applicable under statute is five per cent per annum. The change from a seven to five per cent discount rate in 2005 impacted on the amount of provision required to be carried by the MAIB to cover estimated future claims.

3.4.2.1 MAIB's assumptions

3.4.2.1.1 Claims frequency

Figure 3.8 shows the number of common law claims per 1 000 registered vehicles since 2001-02, together with the frequency assumed in the break-even premium. Similar to scheduled benefits, common law claims frequency has continued to improve each year. Most recently claims frequency in general has reduced by around 23 per cent between 2008 and 2012 for similar reasons. There is no expectation from the MAIB of a further reduction in claims frequency in the near future. The MAIB is forecasting a slight increase in claims frequency based on year to date data for 2012-13 demonstrating that 2012-13 claims frequency is likely to be higher than for 2011-12.

Figure 3.8: Frequency of common law claims



Source: MAIB Submission, p. 56 and GPOC Report 2009.

Note: RHS = Right hand side

MAIB Assumption 3: A common law claims frequency of 1.68 per 1 000 registered vehicles was assumed in the actuarial calculations of the break-even premium.

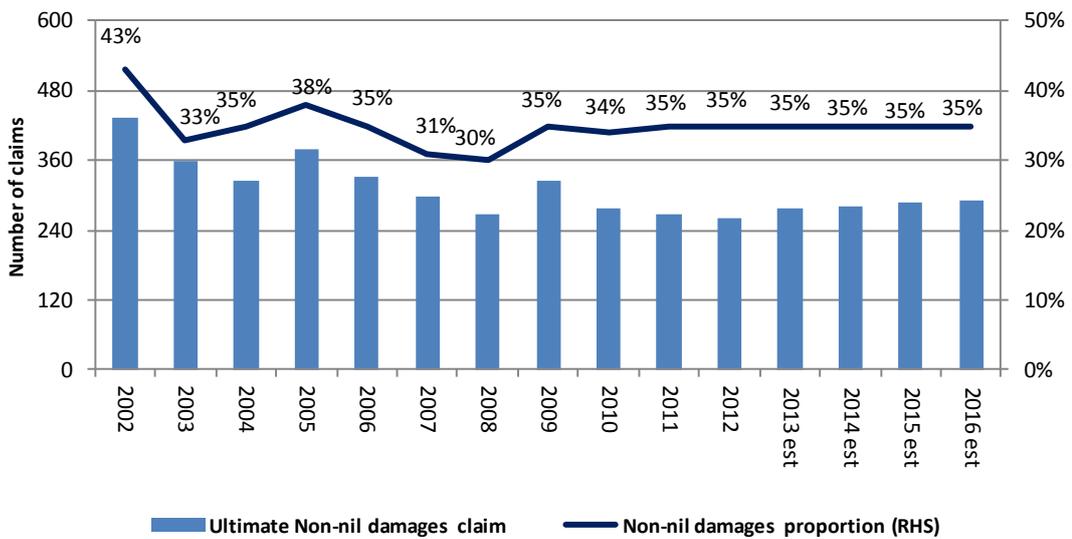
³⁶ Note that this discount rate is used by courts of law to determine the overall value of a claim. The MAIB then is required to pay this claim over time. The final inflated and discounted value to the MAIB will be impacted by its assumed inflation and discount rates.

3.4.2.1.2 Non-nil claims

The MAIB’s process for managing claims is to identify any general claim considered to have the potential to give rise to the issuance of a writ as a common law claim. Not all these claims will result in a damages payout. Those that do result in a payout are termed non-nil damages claims.

Therefore, together with the projection of common law claim numbers, it is also necessary to project the number of non-nil damages claims.

Figure 3.9: Non-nil damages common law claims



Source: MAIB Submission, p. 57 and GPOC 2009.

As shown in Figure 3.9, since 2002-03, the proportion of non-nil claims has averaged around 34 per cent. In more recent years it has maintained a 35 per cent value.

MAIB Assumption 4: The MAIB assumes the proportion of non-nil claims for 2012-13 to be 35 per cent, with the forecast proportion being also 35 per cent.

3.4.2.1.3 Average claim size

Figure 3.9 presents the average estimated Common Law claims size by accident year, together with that assumed in the break-even premium based on 31 December 2012 values without allowance for future inflation and discounting. The data is presented since 2006, which provides a consistent and comparable series, since the changes in the *Civil Liability Amendment Act 2005* discussed above.³⁷

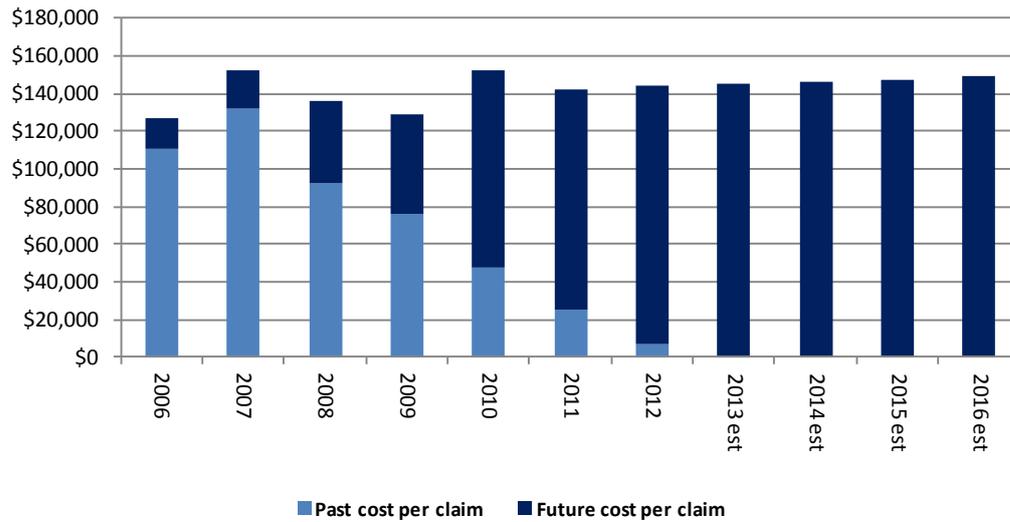
The average claim size shown in Figure 3.9 is split into two parts: the average cost paid to 31 December 2012 and the expected future average outstanding loss. For

³⁷ In 2005 the Civil Liability Act was amended to reduce the discount rate for calculating the present value of amounts for future loss (including economic loss and medical expenses) from seven to five per cent. This has increased the quantum of damages awarded. All other things being equal, a lower discount rate will increase the quantum.

the most recent years, only a small portion of the cost has been paid and the majority outstanding cost can only be estimated.

As noted previously, there is a tendency in CTP insurance for claim payments to increase at a faster rate than AWOTE (i.e. due to superimposed inflation), which may contribute to that forecast growth.

Figure 3.10: Common law average estimated claim size



Source: MAIB Submission, p. 58.

MAIB Assumption 5: An average non-nil common law claim size of \$137 620. Taking into account the assumed rate of non-nil claims of 35 per cent, this is equivalent to an 'all claim' average size of \$48 167. Both values are inflated and discounted to 31 May 2014 dollars (the mid-point of the period over which the premium will be collected).

3.4.2.2 MAIB's proposal

The MAIB's estimated common law cost per vehicle in its submission is based on the following formula:

- forecast claims frequency;
- times forecast non-nil claims proportion;
- times forecast average claim size; and
- divided by the forecast number of registered vehicles.

The total estimated scheduled benefits cost per vehicle for the break-even premium is \$80.80 (inflated and discounted to 31 May 2014 values). This is 23.0 per cent lower in real terms (i.e. adjusted for comparative purposes using movements in AWOTE) than that given in the 2009 MAIB Investigation Final Report.

In line with the findings of an analysis of historical rates of claims cost growth, allowance has been made in the break-even premium for superimposed inflation.

Future common law claims costs are assumed to increase in line with AWOTE plus 0.75 per cent.

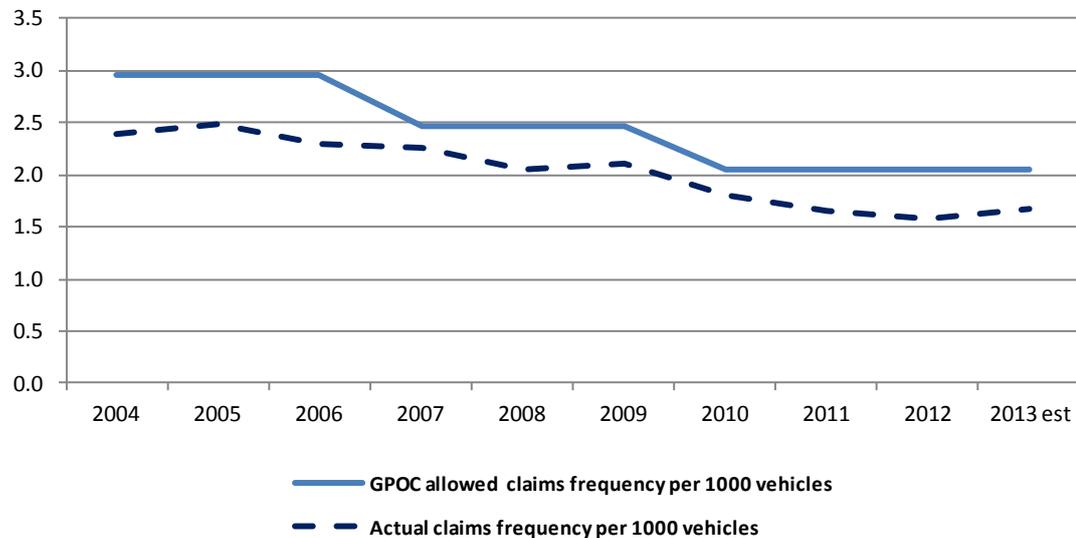
3.4.2.3 Common law – Regulator’s conclusions

3.4.2.3.1 Claims frequency

As with scheduled benefits, the frequency of common law claims has reduced significantly over recent accident years. Figure 3.11 shows that the number of common law claims per 1 000 registered vehicles has decreased by 43 per cent since 2001-02 and by 23 per cent since 2007-08.

Similar to the situation with respect to scheduled benefits, the Commission considered in previous investigations that the downward trend in claims frequency was unlikely to be maintained however claims frequency has continued to decline. Figure 3.11 compares the allowed claims frequency rate in previous investigations to the actual claims frequency rate for common law claims. As can be seen, actual claims experience is lower than allowed claims experience each year. Furthermore, actual claims experience exhibits a clear downward trend over the last ten years.

Figure 3.11: Actual versus GPOC allowed common law claims frequency for accident year ending 30 June



Source: MAIB Submission, p. 65 and previous GPOC Investigations.

This downward trend has occurred for the same reasons as has contributed to the reduction in scheduled benefits; that is, decreasing absolute claims numbers and increasing number of vehicle registrations. The key once again is to determine what is an accurate trend to apply to forecast claims frequency that would benefit Tasmanians without putting undue financial pressure on the MAIB.

To test its conclusions, the Regulator conducted sensitivity analysis and assumed that the number of claims does not change (halting the trend observed) but allowed for continued vehicle growth. Using this method, the number of claims per 1 000 vehicles would fall from 1.67 as estimated by the MAIB for 2013 to 1.57 by 2017, the final year of the pricing period covered by this investigation.

Given that the Regulator determines the breakeven premium for the first year of the pricing period and then applies inflators to premiums thereafter, if this approach were adopted the average of expected four year claims experience would appear to be an appropriate parameter to use. This provides an estimated claims frequency of 1.61 which is less than the 1.68 proposed by the MAIB. This method is incorporated into the Regulator's sensitivity analysis in Section 5.3 for consideration.

Ultimately however whilst the Regulator considers that claims frequency may continue to decline, based on historical experience, the Regulator has decided to accept the MAIB's proposals. As for Scheduled Benefits, the Regulator considers that the flexibility allowed for by the premium order, and the evidence of the application of that flexibility by the MAIB over the past seven years is appropriate.

The Regulator is also proposing to accept the forecast proportion of non-nil damages claims of 35 per cent which is one per cent more than the 34 per cent ten-year average since 2001-02. The additional one per cent incorporated in the projection period is considered justifiable as it is consistent with observations in recent years.

3.4.2.3.2 Average claim size

Regarding the average claim size for common law claims the MAIB is proposing a moderate increase as discussed above. This is due to expected increases in the superimposed inflation rate of 0.75 per cent above AWOTE.

Table 3.7 below presents the difference between the cost of claims between the 2009 Investigation and the MAIB's proposal, adjusted for general inflation. As can be seen, just under 50 per cent of the change can be explained from estimated superimposed inflation rate of 0.75 per cent per annum. Furthermore, 64 per cent can be explained by the change in the discount rate³⁸ discussed above with a slight off-setting amount due to previous overestimates of other costs such as legal costs.

³⁸ Note that the change in the discount rate impacts common law claims more than scheduled benefits because individual common law claims have a longer term mean payment profile. Scheduled benefits actually have a longer tail but the majority of scheduled benefits are paid shortly after an incident. Common law payments take more time to be settled and thus the majority of common law payments are paid later which results in a higher impact with changes in the discount rate compared to scheduled benefits.

Table 3.7: Difference between cost per vehicle for scheduled benefits in 2009 and 2013, inflated and adjusted to 31 May 2014 dollars

Cost categories	\$/vehicle	Percentage of total difference
Superimposed inflation (based on 0.75% above AWOTE)	2.3	45.1
Change in discount rate	3.3	64.0
Other costs	-0.5	-9.0
Total ^{Note 1}	5.1	100.0

Source: MAIB Submission page 51 and OTTER analysis.

Note: 1 This total is based on Table 8.2 of the MAIB submission, however it has been adjusted to take into consideration the lower claims rate in 2013 compared to 2009. This allows for a more direct comparison between the claims value sub components.

Given this evidence the Regulator considers that the MAIB's assumptions are reasonable and are consistent with the assumptions accepted by the Commission in previous investigations.

3.4.3 Future care

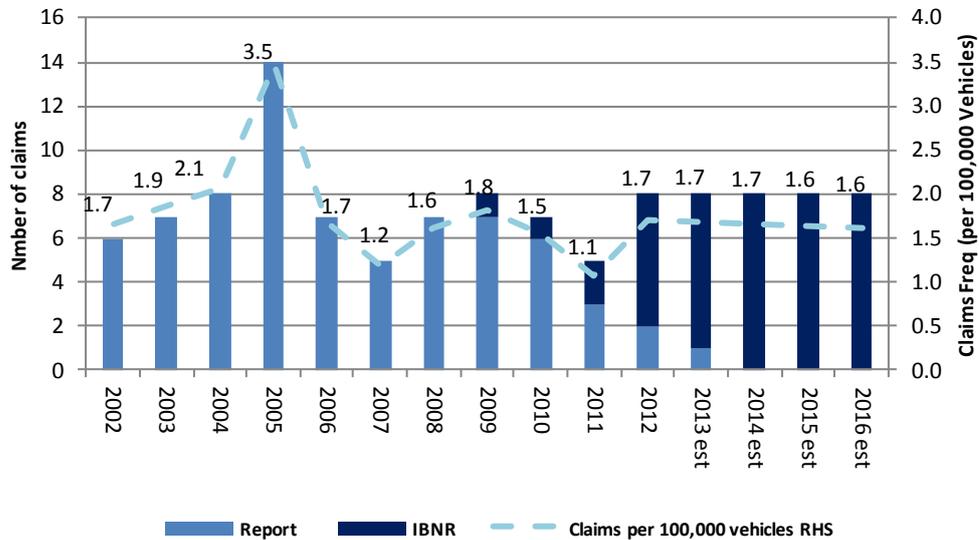
Future care is provided for seriously disabled persons who require at least two hours or more of personal care per day on a long-term basis. These benefits are provided on a no-fault basis, with expenses paid as they arise on an ongoing basis. The amendments to the MA Act in 1991, which introduced the future care benefit, also removed the right of the courts to award lump sum damages in respect of future care, that is, lifetime care benefits can only be paid under the no-fault component of the scheme.

3.4.3.1 MAIB's assumptions

3.4.3.1.1 Claims frequency

Figure 3.12 shows the estimated number of future care claims arising in each accident year together with the implied claims frequency, including MAIB's forecast for the breakeven premium. The number of claims has fluctuated between five and 14 claims per accident year since 2002, with both the median and average being seven. The MAIB suggests that this may change depending on the numbers of IBNR³⁹ claims eventually reported for more recent years. Figure 3.12 shows that there can be considerable volatility, particularly when there are a high number of future care claims as was the case for accident year 2004-05.

³⁹ This is for incurred but not reported claims, which provides an estimate of historical claims that the MAIB expects eventually will be reported.

Figure 3.12: Claims frequency for future care claims

Source: MAIB Submission, p. 51.

Prior to 2007, the projection of Future Care claim numbers was based on an initial estimate of eleven claims incurred each year, consistent with a long-term average frequency of slightly more than 2.5 per 100 000 vehicles which was suggested in a symposium on lifetime support for accident victims in March 2005, sponsored by the Transport Accident Commission (TAC).

As part of the MAIB future care review in 2007-08, the delay between the accident and the classification of each claim as future care was analysed and then projected based on the historic trend. The projection showed that if a low number of future care claims arises within the first two years of accident (from a particular accident year), then it is likely that the ultimate number of future care claims will be low. This led to a lower estimate of nine Future Care claims per annum at the 2009 Investigation.

The MAIB's update of this analysis as part of this investigation suggests that a reduction to eight may now be appropriate.

MAIB Assumption 6: The MAIB assumes the forecast number of claims should be reduced from nine to eight noting its recent findings.

3.4.3.1.2 Average claim size

Future care claims payments are made for as long as a claimant requires 'daily care', often for life. The payments depend on the level of care required. The cost of future care claims therefore depends heavily on the age of the claimant at the time of the accident and the nature and severity of injuries sustained.

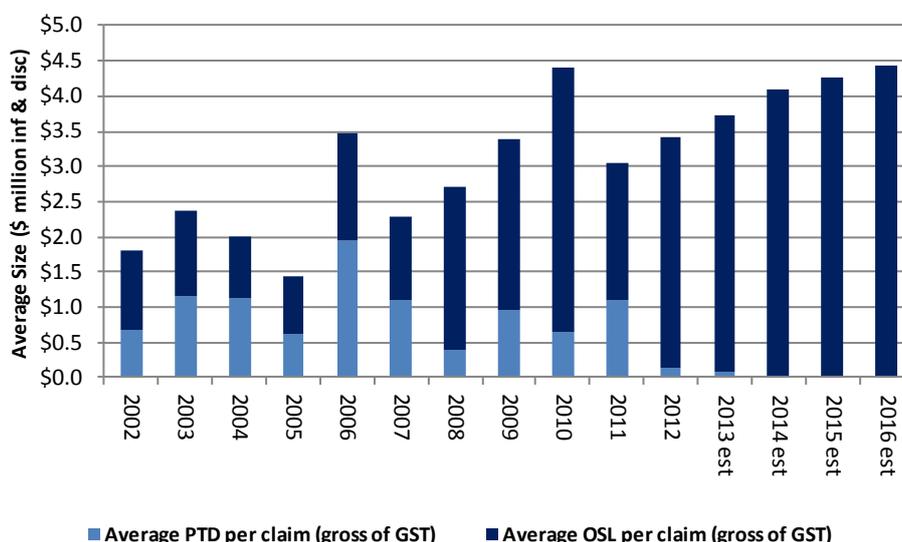
The cost of future care claims can only be estimated and is highly uncertain. Many factors can contribute to changes in the future cost of claims, including deterioration in a claimant's health, ageing of parental carers and technological advances. The life expectancies of young claimants with catastrophic injuries are often unaffected.

Figure 3.13 shows the past average estimated cost of future care claims by accident year in inflated and discounted values, with discounting to the middle of the accident year.⁴⁰ The amounts include GST and future reinsurance recoveries (discussed in more detail in section 3.4.4.4).

As can be seen from Figure 3.13, only a small portion of future care costs have been paid to date. The majority of the costs are estimated, even for ‘older’ accident years.

The estimated average claims costs are highly variable, reflecting the relatively small number of claims in each year, and the widely differing prognoses and care needs of the individuals involved. Historically the average size of a future care claim is in the range \$1.80 million to \$4.41 million.

Figure 3.13: Average claim size of future care claims (inflated and discounted)



Source: MAIB Submission, p. 62.

Note: PTD means Paid to Date and OSL means Outstanding Loss.

MAIB Assumption 7: The average cost used in calculating the break-even premium is \$4.08 million per claim (inflated and discounted). The assumed average size was based on the estimated claim size of the most recent experience of reported claims and allowance for significant increases for carers wages awarded under the recent FWA decision. The FWA decision resulted in significant increases to carer’s wages with increases in award rates to carers based on level – there are seven levels from Level 2 to Level 8.⁴¹ The increases ranged from 19 per cent for

⁴⁰ As stated in the MAIB Submission, the use of inflated and discounted values in the chart is different to the presentation of the average claim size for common law and scheduled benefits, both of which use current values (in December 2012\$ values, without inflation and discounting). Whilst average sizes in current values are typically easier to compare across years, they can be misleading for future care claims because of the small number of claims and their highly individual nature. The assumption of the payment term for future care benefits is critical to the assumed cost, and hence the required premium. Illustration on an inflated and discounted basis is therefore most useful (p.52).

⁴¹ Over 90 per cent of carers of future care patients are level 2 carers.

Level 2 to 41 per cent for Level 8 and were to be applied in nine equal steps on 1 December each year, commencing in 2012 and finishing in 2020. Additionally, the FWA awarded cumulative annual loadings of one per cent per annum over the first four years of the nine year implementation period.

3.4.3.2 MAIB's proposal

In its submission the MAIB's estimated future care cost per vehicle is based on the forecast claims frequency times the forecast average claim size, and divided by the forecast number of registered vehicles.

The total estimated future care cost per vehicle for the break-even premium is \$67.40 (inflated and discounted to 31 May 2014 dollars). This is 15 per cent higher in real terms (i.e. adjusted for comparative purposes using movements in AWOTE) than the cost adopted by the Commission in the 2009 MAIB Investigation Final Report.

In line with the findings of an analysis of historical rates of claims cost growth, an allowance has not been made in the break-even premium for superimposed inflation.

3.4.3.3 Future care – Regulator's conclusions

Future care costs are difficult to project accurately due to the small number of claims each year. Additionally, whilst these claimants are all severely injured, there is considerable variability in the age and injury profile of future care claims, so the ultimate claim size of future care claimants is highly variable and difficult to predict in advance. Whilst the Regulator appreciates these difficulties, it considers recent experience is the best guide to likely future experience during the premium pricing period. In contrast to the experience for scheduled benefits and common law claims, the Regulator does not expect large reductions in claims frequency for future care claims.

With regards to future care claims volumes, the MAIB is forecasting eight future care claims per year, down from nine estimated for the previous Investigation. The Regulator recognises the difficulty in accurately making projections based on such small numbers of claims by the most severely injured claimants. However, based on available evidence, the Regulator considers that an assumption of eight is reasonable as it reflects past experience and the long-term average frequency of around 1.7 per 100 000 vehicles.

3.4.3.3.1 Average claim size

With regards to claim size, the ultimate claim payments are subject to even greater variability. The estimation of ultimate claim size for recently reported claims is difficult due to the potential long period of claim payments, and uncertainty over the level of claim payments. However, even though it may take several years after the accident before the level of periodic payment becomes reasonably predictable, it has been established that the size of claims reduce the longer it takes to identify them because the most catastrophic injuries such as severe brain or spinal injury can be classified relatively quickly. As such, the MAIB will be aware of severe

accident claims (and thus typically, higher cost claims) soon after the accident, and claims of lower severity usually (although not always) emerge later. Thus it would be reasonable to assume that the average size of IBNR claims would be less than the average size of known claims.

Historically the average size of a future care claim is in the range \$1.80 million to \$4.41 million and the MAIB is proposing \$4.08 million, at the upper end of this range. This reflects the most recent experience of higher reported claim size and an allowance for increases to carer's wages awarded under the FWA as discussed above. The Regulator does not consider this to be an unreasonable assumption.

In previous investigations the Commission considered superimposed inflation for future care to be a significant risk and considered applying a sensitivity analysis for a positive superimposed rate similar to scheduled benefits and common law. Superimposed inflation for future care could emerge from unit cost escalation, or due to factors such as longer life expectancy and increased attendant care needs. If for example, gratuitous or family care becomes increasingly difficult to provide, greater costs may have to be met by the MAIB.

In its submission, the MAIB have modelled the impact of a 20 per cent increase and decrease in the average claim size. The impact is estimated for both a 20 per cent increase and a 20 per cent decrease at \$13 per vehicle or 4.9 per cent.

The MAIB has not made any allowance for superimposed inflation for future care based on claims cost investigations undertaken by its actuary.⁴² Its actuary has found no apparent trend towards under or over estimation of its liabilities in this regard. The MAIB does note that there is potential for additional cost pressures for Future Care, given the long-term nature of Future Care payments, medical and carer's costs. The MAIB notes that the recent FWA decision on carer's costs may have previously been considered a burst of superimposed inflation however this has been covered in the base level estimate.

Whilst there is a risk of other elements of superimposed inflation emerging, the Regulator does not consider changing the MAIB's central estimate is warranted because:

- average claim size estimation is imprecise and the MAIB is already proposing a 38 per cent increase from the 2009 Investigation;
- carer cost increases have already been incorporated into the base estimate; and
- historical experience has not shown a discernible trend of superimposed inflation.

⁴² See MAIB submission, p.80.

The Regulator therefore recommends accepting the MAIB's proposal to base the break-even premium on an expected eight future care claims and average claim size of \$4.08 million.

3.4.4 General and Administration Expenses

Table 3.8 below shows the MAIB's general and administration expenses over the past four years together with a forecast for a further four years. These are nominal figures based on the financial year ending 30 June 2013. Breakeven premiums are adjusted to 31 May 2014 dollars (the mid-point of the first year of the pricing period).

Table 3.8: MAIB expense history and forecasts (nominal)

Year Ended 30 June	Actual				Forecast			
	2009 \$'000	2010 \$'000	2011 \$'000	2012 \$'000	2013 \$'000	2014 \$'000	2015 \$'000	2016 \$'000
Written premium	126 265	133 152	138 310	139 271	140 636	146 091	154 182	162 727
Expenses								
General and administration	5 629	5 888	5 790	6 121	5 950	6 177	6 410	6 650
Reinsurance	5 139	5 272	5 344	5 448	5 923	6 315	6 732	7 174
RSTF	3 015	3 240	3 400	3 480	3 500	3 700	3 900	4 100
Road infrastructure	1 581	635	0	0				
IPMF	906	947	687	698	1 100	1 169	1 233	1 302
Motorcycle safety	10	77	8	3	15	15	15	15
Agency costs	2 427	2 493	2 637	2 642	2 800	2 870	2 942	3 016
Total expenses	18 707	18 552	17 866	18 392	19 288	20 246	21 232	22 257

Year Ended 30 June	Actual				Forecast			
	2009 \$'000	2010 \$'000	2011 \$'000	2012 \$'000	2013 \$'000	2014 \$'000	2015 \$'000	2016 \$'000
Expenses as % written premium	%	%	%	%				
General and administration	4.5	4.4	4.2	4.4	4.2%	4.2%	4.2%	4.1%
Reinsurance	4.1	4.0	3.9	3.9	4.2%	4.3%	4.4%	4.4%
RSTF	2.4	2.4	2.5	2.5	2.5%	2.5%	2.5%	2.5%
Road infrastructure	1.3	0.5	0.0	0.0	0.0%	0.0%	0.0%	0.0%
IPMF	0.7	0.7	0.5	0.5	0.8%	0.8%	0.8%	0.8%
Motorcycle safety	0.0	0.1	0.0	0.0	0.0%	0.0%	0.0%	0.0%
Agency costs	1.9	1.9	1.9	1.9	2.0%	2.0%	1.9%	1.9%
Total expenses	14.8	13.9	12.9	13.2	13.7%	13.9%	13.8%	13.7%

Note: Forecast based on information contained in the MAIB Submission.

Total expenses have decreased by \$0.4 million per annum between 1 July 2009 and 30 June 2012 in nominal terms. As a percentage of written premiums, over the same period, expenses have reduced from 14.8 per cent to 13.2 per cent.

General and administrative costs have been relatively stable at around 4.5 per cent of written premiums.

Funding to the Road Safety Task Force (RSTF) has increased by 15 per cent in nominal terms. However Injury Prevention and Management Foundation (IPMF) expenditure has decreased by 23 per cent since the previous Investigation. Reinsurance costs have increased by six per cent in the same period whilst agency costs have decreased by two per cent in nominal terms.

3.4.4.1 Comparison with costs in other states

Average expenses incurred by selected Australian MA insurance providers for the financial year ended 30 June 2012 are compared in Table 3.9.

Table 3.9: Comparison of expenses with other MA schemes in dollars per vehicle

Cost per vehicle	Tas	Vic	SA
Acquisition	6.0	7.9	9.0
Reinsurance ^{Note 1}	12.6	0.5	4.0
General	19.3	34.1	21.8
Accident prevention	9.8	11.4 ^{Note 2}	7.8
Other			38.6
Total (excluding reinsurance)	35.0	53.4	77.3

Source: Various CTP websites and the ABS.

Notes: 1. This is the reinsurance premium only. A better comparison would reflect the net costs of reinsurance (after allowance for reinsurance recoveries) however, this is not currently available.
2. Excludes road safety infrastructure expenditure.

The Regulator notes that this comparison is indicative only because:

- in compiling the table a variety of sources had to be relied on and some assumptions had to be made;
- practices may differ across schemes regarding the classification of some expenses; and
- expenses associated with administering no-fault and common law compensation would be expected to differ.

Table 3.9 also shows that whilst some costs are relatively high, overall the total expenses incurred by the MAIB per vehicle are low compared with other schemes.

3.4.4.2 Acquisition (agency) costs

With the exception of NSW, all Australian MA schemes utilise the state vehicle registration authority to collect premiums. The collection fee charged to the MAIB by the Department of Infrastructure, Energy and Resources (DIER) is currently \$3.95 per premium, inclusive of merchant fees effective 1 July 2012. The MAIB also pays \$0.25 per collection for the Uninsured/Unregistered project with DIER.⁴³ Therefore, the total cost per collection is \$4.20 plus GST which is assumed for the break-even premium for 2013-14.

On a per vehicle basis, the proposed acquisition costs are \$6.00 per vehicle. The difference in the per-policy cost (\$4.20) and the cost per vehicle (\$6.00) is attributed to periodic registrations.⁴⁴

⁴³ This is a joint program between DIER and the MAIB with targeted outcomes to reduce the number of unregistered vehicles on the road as a percentage of the total vehicle fleet and to reduce the value of outstanding registration payments.

⁴⁴ Each time a new renewal is undertaken a new collection fee is charged. Hence provided that some individuals undertake periodic registrations there will always be more individual renewals compared to registered vehicles in any years. Thus the collect cost per vehicle will be higher than per renewable.

The allowance of \$6.00 per vehicle is lower in real terms than the allowance of \$6.70 used in the previous Investigation. The previous allowance was \$5.84 per vehicle in 2009, which is equivalent to a current value of \$6.70 after adjustment for increases in AWOTE between 2009 and 2013.

3.4.4.3 *General administration costs*

Comparisons of general administration expenses are more difficult because the level of general expenses can be expected to vary with the type of compensation and the level of service provided.

In particular, schemes where common law compensation only is provided could be expected to incur lower costs than those with both common law and no-fault compensation. Common law costs may also appear low as defendant legal costs, which are an 'administrative' type cost required to provide common law benefits, are usually classified as a claim cost rather than an administrative cost.

Overall, the Tasmanian scheme continues to compare favourably with all MA insurers including those that provide common law compensation only.

The assumed level of general administration expenses in the MAIB Submission for the break-even premium is 6.5 per cent of claims costs, which produces an administration cost allowance for the 2013-14 premium of \$6.7 million, or \$13.90 per vehicle. This is lower than the \$14.30 per vehicle allowed in the 2009 Investigation (after allowance for AWOTE inflation in the period).

General administration expenses are assumed to increase in line with AWOTE from 2013-14.

3.4.4.4 *Reinsurance*

The MAIB has had reinsurance contracts covering its liabilities for most years since 1978-79. These contracts provide 'per event' cover for losses over an agreed level. The cost of reinsurance varies according to the nature and extent of reinsurance cover purchased. Reinsurance cover is defined by the amount of risk retained by the insurer and the amount of risk passed to the reinsurer. Small insurers and those with low levels of solvency will tend to retain less risk.

The MAIB estimates its reinsurance costs for 2013-14 to be \$6.5 million for the break-even premium. The MAIB has assumed that this cost will increase at a constant rate of three per cent per annum. This cost is higher than that assumed in the 2009 Investigation, which was \$5.85 million (equal to \$5.5 million plus AWOTE inflation in the period).

The MAIB's submission indicates that reinsurance premiums remain high and are unlikely to return to previous lower levels as a result of the GFC and, more recently, a series of natural disasters in Australia, New Zealand and Asia. The MAIB has also noted that the Fair Work Australia decision in February 2012 has led to higher claims estimates for Future Care and has also added to reinsurance costs.

3.4.4.5 *General and administration expenses, reinsurance and acquisition costs - Regulator's conclusions*

The Regulator considers that the MAIB's submission for its general and administrative expenses is reasonable. The application of 6.5 per cent of claims costs amounts to \$6.7 million or translates to \$13.90 per vehicle which is reasonable and consistent with historical trends.

The cost of the reinsurance premium is likely to be higher when compared to other jurisdictions. This is due to the smaller number of registrations, thereby increasing the cost per vehicle coupled with an inability to carry the same amount of single level risk that can be borne by larger schemes. The MAIB is forecasting a small increase in its reinsurance premiums from 3.9 per cent to 4.2 per cent of written premiums. The Regulator understands that this is largely due to increase exposure stemming from the recent FWA decision. The Regulator considers that the MAIB's proposal is reasonable.

The collection (agency) fees proposed by the MAIB are also considered reasonable.

3.4.5 *Road safety and other programs*

Funds spent in an effective manner on accident prevention programs can be viewed as an investment in reducing future claims and the costs associated with those claims. Table 3.9 shows that on a per vehicle basis the MAIB spends a similar amount to South Australia and Victoria on accident prevention programs.

As part of the 2013 Investigation, the Regulator is required to consider the provision of funding by the MAIB to the following:

- a) the Road Safety Advisory Council; and
- b) recognised groups through the Injury Prevention and Management Foundation.

3.4.5.1 *Road Safety Advisory Council*

The MAIB initiated the Road Safety Task Force (RSTF) in July 1996. Its purpose was to reduce road trauma to target levels through enforcement and mass media. The program has been evaluated by Dr Jeremy Woolley of the Centre for Automobile Safety Research, University of Adelaide, in 1999, 2002, 2005, 2008 and 2011. The program received positive outcomes from all the reviews prompting the continuation of funding.

For the 2011 report it was noted that "it is highly likely that the RSTF continued to play a major role in reduction trauma on Tasmania's road network from 2008 to 2010".⁴⁵ This is despite increasing population, numbers of registered vehicles and number of licensed drivers.

⁴⁵ See Woolley, J.E, and Raftery, S.J. (2011) "Evaluation of the Road Safety Task Force 2008 to 2010", Centre for Automotive Safety Research, University of Adelaide, p.29.

Dr Woolley also notes the transition to a new Tasmania Road Safety Advisory Council (RSAC) ties in with the activities of the RSTF and provides a stronger alignment with the Tasmania Road Safety Strategy (2007 to 2016). Dr Woolley considers that the strategy is consistent, if not well ahead, of those currently being developed in other jurisdictions.⁴⁶

Following the 2011 review the MAIB accepted Dr Woolley's recommendation for a continuation of funding, with \$3.48 million per annum committed, indexed at 5 per cent, for a further three years from 1 January 2012.

3.4.5.2 Injury Prevention and Management Foundation (IPMF)

Funding for the IPMF is determined by the MAIB Board and, under section 13D(3) of the MA Act, may be up to one per cent of the gross premium each year.

The IPMF provides funding to a number of organisations⁴⁷, together with grants for special projects. The recurrent funding is overseen by the IPMF Charities Committee which was established in January 2002.

The Regulator is satisfied that the MAIB's proposal to spend \$1.2 million per year (or 0.90 per cent of gross premium) is appropriate and within the legislative parameters.

3.4.5.3 Motorcycle safety strategy

Initially, the MAIB committed \$0.5 million directed to a range of activities to enhance rider safety. The MAIB subsidised Motorcycle Road Skills Courses have continued beyond that period. The MAIB has indicated that the take-up rate has been modest in the past three years and additional promotional activities are being undertaken during 2012-13.

Under the Injury Prevention and Management Foundation, the MAIB has continued to provide subsidised refresher training for Tasmanian motorcyclists to improve their riding skills and decrease their likelihood of being involved in motor accidents.

For the break-even premium the MAIB has assumed spending of around \$20 000 per annum on the motorcycle safety strategy.

3.4.5.4 Road safety and other programs – Regulator's conclusions

The Regulator recommends accepting the MAIB costs in relation to these programs as the available evidence makes it apparent that these programs yield positive results in terms of reducing claims frequency and costs to the MAIB and therefore all motorists. The Regulator also supports the views previously expressed by the Commission that providing an allowance for these programs should not

⁴⁶ Ibid, p.29.

⁴⁷ These include Brain Injury Association of Tasmania; Headway North West Inc; Headway Support Services – Southern Region; Road Trauma Support Team; Tasmanian Acquired Brain Injury Service Inc; and Paraplegic and Quadriplegic Association of Tasmania Inc.

necessarily limit the MAIB's expenditure in these areas if it believes the benefits in terms of reduced frequency and/or claims costs will exceed the additional cost.

The Regulator notes that the level of accident prevention funding is comparable to the amount spent per-policy by the TAC in Victoria.

3.4.6 Vehicle registrations

The premium paid for each registered vehicle is calculated by dividing the total costs by the number of premiums. The number of registered vehicles therefore plays an important role in determining the actual cost of premiums.

Table 3.10 shows the number of registered vehicles for the past three years and MAIB's forecast for registrations for the next three years. The MAIB has predicted a one per cent growth in vehicle numbers in 2013 followed by a 1.50 per cent growth in each of the following years.

Table 3.10: Number of registered vehicles, historical and forecast

Year ended 30 June	Number of registered vehicles	Percentage increase from previous year
2006	414 590
2007	424 052	2.3
2008	435 595	2.7
2009	441 476	1.4
2010	452 893	2.6
2011	463 567	2.4
2012	469 132	1.2
2013 (forecast)	473 823	1.0
2014 (forecast)	480 931	1.5
2015 (forecast)	488 145	1.5
2016 (forecast)	495 467	1.5

Source: MAIB Annual Reports and MAIB assumption.

The number of registered vehicles as at 31 January 2013 was 474 406. This is a 1.20 per cent increase since 30 June 2012, which has already surpassed the MAIB's estimate in its submission. This suggests that the expected growth of 1.0 per cent to 1.5 per cent is not unreasonable.

3.4.6.1 Unregistered vehicles

An unregistered vehicle poses two risks to the MAIB. Firstly the MAIB does not receive revenue from the premium which should have been paid. Secondly the MAIB is still exposed to the costs of persons (other than the driver) injured in an accident involving the uninsured vehicle.

DIER and the MAIB formed a partnership, underpinned by a Memorandum of Understanding (MOU) in 2000 to reduce the number of unregistered/uninsured vehicles in Tasmania.

Since 2005 DIER, with financial contribution from the MAIB, has undertaken a project to investigate the number and impact of unregistered, and thus uninsured, motor vehicles in Tasmania. The unregistered/uninsured project's targeted outcomes are to reduce the number of unregistered vehicles on the road as a percentage of the total vehicle fleet; and to reduce the number and value of outstanding registration payments. The outcomes are met through a campaign of education and enforcement.

These estimated rates have fallen since the start of the project. For the 2004-05 financial year, it was estimated that unregistered vehicles constituted 2.7 per cent of all vehicles on the road. In 2006-07 the Automatic Number Plate Recognition (ANPR) operation commenced and indicated an overall unregistered rate of 0.8 per cent from 23 634 vehicle sightings. For 2007-08 the unregistered rate increased to 0.86 per cent from 143 419⁴⁸ vehicle sightings, however for 2011-12 the rate has fallen to 0.62 per cent from 369 901 vehicle sightings.⁴⁹

The rate in 2011-12 is below the benchmark of 1.0 per cent and within the required target of 0.50 to 0.75 per cent set in the MOU between MAIB and DIER. Of the vehicles detected as being unregistered, 84 per cent were subsequently re-registered, suggesting that only 0.03 per cent of vehicles are left unregistered which has a commensurate small revenue impact on the MAIB.

3.4.6.2 *Impact of the introduction of the National Heavy Vehicle Regulator*

The Terms of Reference require the Regulator to consider the impact, on the MAIB's operations of the introduction of the National Heavy Vehicle Regulator (NHVR).

On 21 January 2013, the NHVR opened for business as Australia's first national, independent regulator for all vehicles in Australia over 4.5 tonnes gross vehicle mass (GVM). Based in Brisbane, the Regulator will initially offer NHVAS (National Heavy Vehicle Accreditation Scheme) and PBS (performance-based standards) services on a national basis.

The NHVR will evolve into a one-stop-shop for heavy vehicle road transport business with government across Australia, later in 2013, when it will administer one set of national laws for heavy vehicles under the Heavy Vehicle National Law (HVNL).

Once the Heavy Vehicle National Law (HVNL) is in place in the majority of states and territories, the NHVR will deliver a comprehensive range of services under a consistent regulatory framework.

⁴⁸ Unregistered/Uninsured Project Report for the year ending 30 June 2008.

⁴⁹ Unregistered/Uninsured Project Report for the year ending 30 June 2012.

Until then, Australia's heavy vehicle operators will continue to do all remaining heavy vehicle road transport business with state and territory road transport authorities.⁵⁰

Even when the HVNL is in place later in 2013, some aspects of heavy vehicle regulation will not change. Most notably, heavy vehicle registration will continue to be administered by the states and territories.

The MAIB's submission notes that the HVNL was to also introduce a single, national registration system for heavy vehicles however, implementation of this system was estimated to be costly and could not be completed in time for the commencement of the HVNL. The NHVR is aware that design of any future system will have to take into account a variety of MA arrangements across Australia. The MAIB also note in their submission that the General Manager (Operations) at the NHVR has advised that there are no proposals at this stage to harmonize the current MA and stamp duty arrangements into a unified system across Australia.

Given this, there would not appear to be any foreseeable impact of vehicle registration of the NHVR on the MAIB's operations.

3.4.6.3 *Claims from interstate-registered vehicle occupants*

The MAIB's submission notes that each year it receives several hundred claims from occupants of interstate-registered vehicles injured in motor accidents in Tasmania.

However, analysis conducted by the MAIB in 2006 showed that a high proportion of interstate claims were rejected.⁵¹ These claims are rejected principally because the claimant is eligible under a different scheme (e.g. drivers of Victorian-registered vehicles are eligible under the TAC scheme in Victoria) or the claimant is involved in a single-vehicle accident (and hence does not involve a Tasmanian registered vehicle). Further, the MAIB is able to recover from interstate insurers if it can be established that the driver of the interstate-registered vehicle is at least partially at fault.

Premiums are not collected in respect of these claims, and so an increasing proportion represents a potential strain on the collected premium pool. The MAIB consider that this may be as much as a 0.50 per cent addition to scheduled benefits costs.⁵²

The MAIB has factored into its claims frequency and average cost data (discussed in section 3.4.1) the net interstate claims costs (after recoveries and rejection) based on historical patterns.

⁵⁰ See <http://nhvr.gov.au/>

⁵¹ MAIB Submission, p. 77.

⁵² MAIB Submission, p.78.

3.4.6.4 Vehicle registrations – Regulator's conclusions

Based on the discussion above and recent history the Regulator considers the MAIB's estimated growth in vehicle registration to be reasonable and recommends accepting the MAIB's proposal.

3.5 Break-even premium – Regulator's draft recommendation

In its draft report, the Regulator noted the MAIB's assumptions for calculating scheduled benefits, future care, common law claims, and other expenses. The Regulator believed that in general the assumptions were reflective of historical trends and largely present realistic expectations of future developments. However, the Regulator considered that the following adjustments should be made to the MAIB's break-even premium proposal:

- the MAIB's precautionary doubling of hospital costs for scheduled benefits should be removed, based on the latest advice from DHHS that any increase in hospital costs above CPI for the MAIB is unlikely to occur for some years. Table 3.12 provides a summary of the resultant break-even premium using the MAIB's assumptions and the Regulator's proposal. The result is that the Regulator's proposed a break-even premium for 2013-14 of \$239.20 per vehicle is \$19.10 lower than the MAIB's forecast, at \$258.30 per vehicle.

3.6 Submissions

In its submission on the Draft Report, the MAIB disputed the Regulator's interpretation of the timeframe for when hospital costs may increase. The MAIB noted that correspondence it has received from DHHS suggests that the hospital cost review will likely take place in the next 12 to 18 months. The MAIB considers that if the review occurs at the mid-point of this period, in July 2014, it is highly likely that hospital costs will need to be reflected in premiums from 1 December 2014. The MAIB also considers that the increase in hospital costs will be material and considers that the breakeven premium should not be decreased at this time.

Furthermore, the MAIB does not agree with the Regulation's recommendation to undertake further detailed investigation into the determinants of the MAIB's claim frequency. The MAIB notes that there is a multitude of influencing factors and any investigation will find it difficult to disentangle the effects of each factor. The MAIB considers that the results of any investigation would be speculative and that it is unlikely that it would act on results of the investigation. The MAIB considers the costs of such an investigation will far outweigh any benefits and suggests this recommendation be deleted

3.7 Break-even premium – Regulator's final recommendation

With respect to hospital costs the Regulator notes that it has received the same advice as the MAIB has received from DHHS and sees no reason to change its proposed recommendations with respect to the impact of potential increases in hospital bed-day costs. That is, at present the Regulator considers that the timing of

the review of hospital costs lacks certainty. In addition, this estimate is for the commencement of the review, and no indication has been provided on how long the review will take nor the time taken for a final decision to be made and implemented. Furthermore, there is no clear indication of what the magnitude of any likely change in hospital costs may be for the MAIB. Given this uncertainty on multiple levels the Regulator does not consider it reasonable for premiums to remain at their current level to fund a potential future cost. Finally, the Regulator considers that the impact of this decision on the MAIB is likely to be minimal should hospital costs actually increase during the pricing period (see Section 5.3). However, the Regulator has suggested conditions to re-open the pricing order should the impact be material (see Section 7.2). Given this, the Regulator maintains its recommendation that the break-even premium for 2013-14 should fall to \$239.20.

With respect to claims frequency, the Regulator remains firmly of the view that there is merit in undertaking a more substantial investigation. The Regulator reiterates its observation that claims frequency continues to decline despite the Commission's and the MAIB's previous opinion that the claims frequency had reached the bottom of its downward trend. Whilst the Regulator has approved the MAIB's proposal for claims frequency (due to the flexibility of the pricing order that allows the MAIB to not increase premiums if claims frequency falls) the Regulator considers that it may need to adopt a further reduction in claims frequency for the next pricing period should the declining trend continue.

In this light, the Regulator notes that the MAIB has commissioned multiple studies on the benefits of the Road Safety Advisory Taskforce which have proven useful. However, the Regulator considers that the MAIB's investigations should now expand to better ascertain the determinants of its claims frequency. The Regulator considers that this would not only assist with claims liability estimation but may also assist in determining with more certainty the value for money it receives from current and potential future road safety investments.

Table 3.11 Components of the break-even premium 2013-14 – MAIB proposal

Component	Assumption	Total Cost per annum \$m	Cost per vehicle \$
Future care			
▪ Claims frequency per annum	8.0		
▪ Average cost inflated and discounted Note 1	\$4.076m	32.6	67.4
Common law			
▪ Claims frequency, per 1 000 vehicles	1.68		
▪ Non-nil damages proportion	35%		
▪ Average cost inflated and discounted Note 1	\$137 620	39.1	80.8
Scheduled benefits			
▪ Claims frequency, per 1 000 vehicles	5.88		
▪ Average cost inflated and discounted Note 1	\$13 736	39.1	80.8
Allowance for GST/DAMs ⁵³⁾ Note 2	-6.3%	-7.0	-14.4
Sub-total claims costs		103.9	214.9
Expenses			
▪ General and admin (% claims payments)	6.5%	6.7	13.9
▪ Collection fees per policy	\$4.25	2.9	6.0
▪ Reinsurance (% growth per annum)	3.0%	6.5	13.4
Sub-Total expenses		16.1	33.3
Programs			
▪ Road safety	\$3.78m	3.8	7.8
▪ IPMF	\$1.20m	1.2	2.5
▪ Motorcycle safety	\$0.02m	0.0	0.0
Sub-total programs		5.0	10.3
Investment return and inflation	3.00%		
Number of vehicles ^{Note 3}	483 923		
TOTAL		125.0	258.3

- Notes
1. Inflated and discounted to 31 May 2014 and gross of GST.
 2. Equal to 1/11th of 69 per cent of claims costs, as described in Section 6.9.1 of the MAIB Submission.
 3. As at 30 November 2014. Assumed vehicle growth of 1.0 per cent until 30 June 2013 and 1.5 per cent per annum thereafter.

⁵³ GST is included in the calculation of claims costs but then an allowance is deducted for the “decreasing adjustment mechanism” (DAM) in accordance with the transitional arrangements put in place for the insurance industry when the GST was introduced. Refer p. 41 of the MAIB Submission.

Table 3.12 Components of the break-even premium 2013-14 – Regulator's final recommendations

Component	Assumption	Total Cost per annum \$m	Cost per vehicle \$
Future care			
▪ Claims frequency per annum	8.0		
▪ Average cost inflated and discounted <small>Note 1</small>	\$4.076m	32.6	67.4
Common law			
▪ Claims frequency, per 1 000 vehicles	1.68		
▪ Non-nil damages proportion	35%		
▪ Average cost inflated and discounted <small>Note 1</small>	\$137 620	39.2	80.9
Scheduled benefits			
▪ Claims frequency, per 1 000 vehicles	5.88		
▪ Average cost inflated and discounted <small>Note 1</small>	\$10 286	29.3	60.5
Allowance for GST/DAMs <small>Note 2</small>	-6.3%	-6.3	-13.1
Sub-total claims costs		94.7	195.6
Expenses			
▪ General and admin (% claims payments)	6.5%	6.7	13.9
▪ Collection fees per policy	\$4.25	2.9	6.0
▪ Reinsurance (% growth per annum)	3.0%	6.5	13.4
Sub-Total expenses		16.1	33.3
Programs			
▪ Road safety	\$3.78m	3.8	7.8
▪ IPMF	\$1.20m	1.2	2.5
▪ Motorcycle safety	\$0.02m	0.0	0.0
Sub-total programs		5.0	10.3
Investment return and inflation	3.00%		
Number of vehicles <small>Note 3</small>	483 923		
TOTAL		115.8	239.2

Notes: 1. Inflated and discounted to 31 May 2014 and gross of GST.

2. Equal to 1/11th of 69 per cent of claims costs, as described in Section 6.9.1 of the MAIB Submission.

3. As at 30 November 2014. Assumed vehicle growth of 1.0 per cent until 30 June 2012 and 1.5 per cent per annum thereafter.

4 MAIB FINANCIAL CIRCUMSTANCES

4.1 Introduction

Under section 31(g) of the Economic Regulator Act, the Regulator is also required to take into account the financial viability of the MAIB in recommending maximum premiums. In setting premiums, the Regulator therefore needs to be cognisant of the MAIB's current financial position, the MAIB's likely future financial position and the expected impact of the Regulator's recommendations on those current and future financial positions.

Analysis from this chapter will assist the Regulator in forming its views on the appropriate insurance profit to be earned on premiums with variations in that profit margin used to assist in maintaining financial viability.

This chapter considers:

- the MAIB's financial targets and the basis for those targets;
- the MAIB's approach to claims liability valuation;
- the MAIB's investment strategy;
- the Government's dividend policy in relation to the MAIB; and
- the MAIB's forecast financial position.

The insurance profit earned on premiums is considered in Chapter 5.

4.2 Financial Targets

The key variable used by the insurance industry to measure the financial health of a business is referred to as solvency. A solvent insurer is one which maintains capital at a level considered to be adequate by regulators (APRA in respect of private insurers) or by stakeholders (in the case of public sector insurers).

The MAIB calculates its solvency ratio as:

$$\frac{\text{adjusted net assets}}{\text{net outstanding claims liabilities}}$$

Adjusted net assets are net of dividends calculated but not yet paid.

Finity⁵⁴ notes that a solvency ratio greater than zero per cent implies that the value of the assets available to meet claims exceed the liability for outstanding claims.

⁵⁴ See Finity (2013) "Motor Accidents Insurance Board Pricing Investigation 2013" report prepared for the Tasmanian Economic Regulator, p.9.

Furthermore, the net outstanding claims liability includes a risk margin (see Section 4.3.3) which provides for a higher probability that the MAIB's claims reserves are sufficient to cover the payments falling due.

This section considers what is the appropriate solvency target level for the MAIB.

4.2.1 MAIB proposal

In its submission⁵⁵ the MAIB notes that it is essential that the MAIB holds an appropriate level of capital for reasons of good governance and sound financial management. The MAIB notes that it has established a target capital level which seeks to achieve a balance between the desire to hold capital to ensure that "normal fluctuations" in experience can be funded without volatility in premiums and the responsibility to make efficient use of capital. Following an evaluation of the MAIB's solvency by its consulting actuary in April 2007, the MAIB adopted the actuary's recommendation that the target solvency range of 15 to 20 per cent be increased to 20 to 25 per cent.

The MAIB notes that the scheme's solvency reduced from 29.5 per cent as at 30 June 2007 to 15.5 per cent as at 30 June 2009 as a result of the GFC. However, the scheme's solvency returned to the target range within a year. A similar, but smaller reduction, has been experienced in 2012, however the MAIB again considers that this will be reversed within a year.

The MAIB also noted that at the previous Investigation the estimated reduction in solvency caused by the GFC was in the same order as the reduction in solvency margin, suggesting that the current target is of the right magnitude.

4.2.2 Insurance industry benchmark requirements

The Terms of Reference require the Regulator to consider the appropriateness of the MAIB using current insurance industry prudential requirements as a benchmark to measure long-term sustainability. It was noted in previous investigations, that there is merit in referring to the APRA standards as a benchmark. However, it was also noted that these standards should not be adopted either as absolute requirements or targets whilst the MAIB is under the current regulatory framework. This is because a centrally managed fund such as the MAIB has greater control over its prices and a greater ability to fund unexpected drains on capital.

Furthermore, the long-tail nature of the MAIB scheme is considered an important factor. It is likely that trends in investment performance and claims experience will become evident over time, allowing for corrective action to be taken. Most private sector insurers typically have more mixed portfolios with both short-tail and long-tail claims and corresponding investment portfolios and, in theory, an insurer in a competitive market would be unable to recover from poor claims experience in one year through higher premiums in the next year.

⁵⁵ See MAIB Submission p.98.

The APRA prudential framework is complex and it takes into account general insurers' mix of short-tail and long-tail claims. The prudential standards take into account three factors:

- liability risk (an insurer with a high proportion of long-tail claims attracts a higher loading for liability risk);
- asset allocation (an insurer with a higher proportion of high growth assets also attracts a higher loading); and
- concentration risk (insurers exposed to concentrated risks also attract an additional loading). For the MAIB concentration risk reflects the possibility of an incident leading to many serious claims such as a bus crash.

If the APRA framework was applied strictly to the MAIB, a long-tail insurer, with a high proportion of growth assets and significant concentration risk, the resulting capital requirement would likely be prohibitively high. The basic application of the APRA prudential framework would not consider other offsetting factors such as the availability of the Government guarantee, the availability of a guaranteed revenue stream courtesy of regulated premiums, the fact that the MAIB is a monopoly operation or the nature of the MAIB scheme. In addition, the benefits available under the MAIB scheme are defined by legislation and the Government could amend entitlements if the viability of the scheme were in question. In exceptional circumstances, the solvency of the scheme could be restored by way of a levy, as has been the practice of governments elsewhere. Such a measure has the additional benefit of being transparent. The Government also has the option of foregoing dividends or providing additional equity.⁵⁶

In the MAIB's regulated environment, it is possible for the Regulator to identify emerging circumstances during each review and to allow the insurer to adjust its premiums to accommodate trends in claims payments that may not have been evident when premiums were set following earlier investigations. The legislation also enables the Minister to determine maximum premiums without an investigation and, although such a decision is unlikely to be made without compelling reasons, there is nevertheless the opportunity for corrective action to be taken in the period between reviews should significant unforeseen events occur.

4.2.3 Finity comments⁵⁷

To assist in determining the appropriate solvency target the Regulator engaged the services of the actuary firm Finity. In its report Finity noted that the level of solvency for MAIB compared to its solvency target is a function of the MAIB's and the Government's risk tolerances and the Government's preferred average dividend. In general, lower solvency equates to higher risk and may lead to the requirement to

⁵⁶ The Government has, in limited circumstances, provided capital injections to other Government owned businesses that have had insufficient capital.

⁵⁷ Much of this material has been paraphrased from the Finity (2013) "Motor Accidents Insurance Board Pricing Investigation 2013" report prepared for the Tasmanian Economic Regulator.

significantly increase premiums to alleviate an unfavourable financial position. On the other hand, higher solvency levels may be deemed an inefficient use of capital. Finity notes that in setting solvency (and profit) targets the following should be considered:

- measurement of capital and definition of a poor solvency position;
- risk tolerances associated with capital level;
- preferred level of dividend or return on capital;
- risk tolerance to premium increases (or other remedial actions such as expenditure cuts or benefit changes); and
- acceptable time horizon to recover from a poor solvency position.

Finity considers that adopting a lower bound of zero per cent is a sensible level to consider as poor as there is a significant natural aversion to falling below zero net assets which, in turn, creates a strong incentive to manage the solvency level.

Conversely, Finity does not consider it necessarily efficient for a government insurer to operate with capital at a level required by an APRA general insurer. Finity considers that an APRA level solvency target as being at the high end of solvency that might be reasonably targeted by a government insurer. Furthermore, Finity considers that a government owned insurer can operate at a lower level of capitalisation than that mandated by APRA because:

- if solvency falls below a target level, or even becomes negative, the government insurer is still able to remain in business and fund the deficit post event;
- unlike private insurers government insurers can continue in business whilst technically insolvent;
- a captive client base means government insurers can increase premiums without fear of losing business;
- many of the liabilities are very long tail and are not going to be paid in the short term. Liquidity is not generally an issue for government insurers and there is time to recover from any poor performance; and
- many stakeholders may not wish to see, in their view, an over capitalised entity:
 - motorists would often prefer to see any excess capital returned to them by way of lower premiums; and
 - the government could make use of excess capital elsewhere.

Finity also notes that most schemes, including the MAIB, adopt APRA minimum risk margins (75 per cent probability of sufficiency) which are included in the solvency

calculation for the net outstanding claims liability. This is effectively a contingency estimate above the central estimate of the quantum of outstanding claims liabilities.

Finity considers that this approach balances the interests of key stakeholders without necessarily tying up large amounts of capital.

In summary, Finity considers that the MAIB's solvency target is not unreasonable in the context of the risk faced by the MAIB including the shocks to solvency that have occurred in the past (most notably the GFC). However there may be merit in increasing the breadth of the solvency ratio range to be more consistent with expected future and past actual 'business as usual' annual volatility.

Furthermore, Finity considers that there needs to be a stronger link between the MAIB's and the Government's respective risk tolerances in setting the appropriate range. In particular Finity considers it would be beneficial for the MAIB and Government to undertake an exercise to determine their risk tolerance to falling below certain solvency levels and their tolerance to the time required to recover from a poor solvency outcome. This exercise should have regard to the MAIB's specific circumstances and not to APRA capital standards.

4.2.4 Target Solvency – Regulator's draft conclusion

In its draft report the Regulator noted that it does not advocate the adoption of APRA standards in absolute terms for the reasons discussed above. However, the Regulator was of the view that the APRA standards may form the basis of a relevant benchmark for the MAIB to measure long-term sustainability. The risk based approach of the APRA prudential framework is useful in considering particular components of the MAIB's long term solvency. APRA requires insurers to hold a risk margin or prudential margin above the central estimate of outstanding claims liability and premium liabilities. This risk margin is required to provide at least a 75 per cent probability of adequacy. The Regulator noted that the MAIB has included a prudential margin of 20 per cent in the outstanding claims liability for many years, which is estimated to provide at least a 75 per cent probability of adequacy (see Section 4.3.3).

The Regulator noted the MAIB's view that the estimated reduction in solvency caused by the GFC was in the same order as the reduction in the solvency margin, suggesting that the current target is of the right magnitude for managing fluctuations. However, the Regulator notes that the actual solvency level of the MAIB only fell to 15.5 per cent at 30 June 2009 despite lower forecasts. Furthermore, the Regulator noted that the GFC may be considered an extraordinary event unlikely to be repeated any time in the near future.

The Regulator considered that pricing may be described as a blunt instrument to assist in maintaining solvency levels. This is because investment returns tend to be volatile which can also cause solvency to fluctuate widely, as observed during the GFC. Given this, for pricing purposes the Regulator considered that a lower bound of zero per cent may be more appropriate. The Regulator did not suggest the MAIB actively reduce its current solvency position as this is a decision for the MAIB Board

and the Government. Rather, the Regulator considered that its recommended maximum premiums need not be impacted by the MAIB's financial position if its current and expected future solvency ratio is above zero per cent.

To inform the next Investigation the Regulator proposed recommending that the MAIB and the Government undertake an exercise to determine their risk tolerance to falling below certain solvency levels and their tolerance to the time required to recover from a poor solvency outcome, as recommended by Finity.

4.2.5 Submissions

In its submission on the draft report the MAIB outlined its concerns with the Regulator's draft recommendations. In summary, the MAIB:

- regularly reviews its solvency target range which is signed off by the Shareholding Minister's in its corporate planning process. The MAIB considers this process most adequate and regards the Finity suggestion that further work in relation to risk tolerance to be unnecessary and an additional financial burden on Tasmanian motorists;
- notes there was an error in the Finity report which the Regulator has quoted in its draft report that indicated that the "level of solvency adopted by the MAIB is at the upper end of the range typically adopted by government owned CTP schemes. This reference has subsequently been removed from Finity's report. The MAIB present target solvency rates from other schemes suggesting that, apart from Victoria, its solvency range is similar to other jurisdictions;
- rejects the argument for a lower bound target solvency range of zero per cent for when remedial action should be undertaken. The MAIB considers this to be an unfunded situation and points to difficulties experienced in other jurisdictions, specifically New Zealand, in returning to a position with above zero per cent solvency;
- disagrees with the Regulator's findings with respect to the measures available to return to above zero per cent solvency such as amending legislation concerning the schemes benefits and imposing a levy on motorists and Finity's comment that a government insurer can continue to operate whilst technically insolvent;
- rejects the Regulators observations with respect to the MAIB's performance during the GFC;
- notes that it will be reviewing its target solvency again in mid-2013 and suggests, based on previous actuary advice, that its solvency target range could increase to between 20 to 30 per cent. In the absence of a directive from the Shareholding Ministers, the MAIB indicate that it will not be adopting a lower bound of zero per cent; and
- does not consider that a trigger point above the upper end of its target range is necessary for action to be taken as it considers that its dividend payment and

tax equivalence regime provide a moderating influence on increasing solvency.

4.2.6 Target Solvency – Regulator's final conclusion

The Regulator considers that the MAIB's interpretation of its conclusion with respect to target solvency and pricing is inconsistent with the Regulator's intention. That is, the MAIB appears to have interpreted the Regulator's position to be that the MAIB's solvency position is too high and that it should be adjusted. The Regulator is not suggesting the MAIB actively reduce its current solvency position and recognises that this is a decision for the MAIB Board and the Government. The Regulator has however made observations with respect to the inter-relationship between pricing and solvency.

The Regulator considered that the current Investigation was an opportune time to consider a more robust framework for linking solvency and considerations of the profit margin in the average premium. This was particularly in light of the higher profit margin (30 per cent) granted under the previous Investigation and the speed at which the MAIB's solvency returned to within its target range following the GFC. This highlighted to the Regulator that investment returns primarily influence solvency and that solvency can fluctuate widely.

The Regulator therefore engaged Finity to provide independent advice on the appropriate financial position of a government owned insurance business. The Regulator considers that this approach is consistent with its requirements under the Economic Regulator Act, including (but not limited to):

- the need to protect consumers from the adverse effects of the exercise of monopoly power by a monopoly provider in relation to prices, pricing policies and standards of service in respect of the supply of the monopoly service (Section 31(e)); and
- the need for the monopoly provider to be financially viable (Section 31(g)).

With respect to these objectives, the Regulator notes that under its terms of reference it is to investigate the pricing policies of the MAIB. It is the Regulator's view that prices should be based on efficient cost and should not deviate from this position unless the financial position of the MAIB comes into question.

The Regulator acknowledges the error in Finity's report raised by the MAIB comparing the MAIB's solvency target with other similar schemes in Australia and New Zealand. This has since been amended in both Finity's and the Regulator's respective reports.

However, the Regulator remains of the view that Finity's recommendation of a lower bound solvency of zero per cent as a trigger for further action on pricing is reasonable.

This is because:

- a zero per cent solvency level stills provides the MAIB with full funding; i.e. sufficient assets to meet its liabilities; and
- the liabilities are largely long tail in nature and hence the situation will simply not arise where all liabilities will need to be funded at the one time.

Given this, the Regulator does not consider it reasonable for the MAIB to earn an additional premium on profit from motorists when its solvency level is above this suggested lower threshold.

However, the Regulator re-iterates that it does not recommend that the MAIB and the Government actively reduce the MAIB's solvency level. The Regulator appreciates that the excess of assets over liabilities can change quickly with changes in investment returns and can be useful to fund unforeseen costs that may be partially retrospective, such as the recent decision of FWA. The decision about the appropriate solvency level, which is largely influenced by investment returns, is a decision for the MAIB and the government.

That said, the Regulator still supports Finity's conclusion that that there needs to be a stronger link between the MAIB's and the Government's respective risk tolerances in setting the appropriate target solvency range. The Regulator notes the MAIB's comments that it will review its solvency target this year, that it may expand its solvency range to between 20 and 30 per cent and that it does not consider it necessary to take any action if solvency rises above its target range. This review would appear to be an appropriate time to undertake the exercise suggested by Finity, particularly given that Finity notes that the MAIB's target solvency range should have regard to the MAIB's specific circumstances and not to APRA's capital standards.

4.3 Claims liability valuations

Under the Terms of Reference, the Regulator is required to consider the appropriateness of the current claims valuations. The value of claims (calculated each year) is dependent on the expected cost of claims and the assumed claims escalation rate (claims inflation) and discount rates.

The MAIB seeks regular actuarial advice regarding the value of its outstanding claims liabilities.

Two key factors used to determine the estimated outstanding claims liability are the discount rate and claims inflation rate. These factors are discussed below.

4.3.1 Discount rate

Prior to 2002, the MAIB valued claims liabilities by adopting a risk-free discount rate, which was based on the effective Government bond interest rate. In 2002 the MAIB adopted a new approach using the 'Market Linked Fixed Gap' approach. The discount rates used in the valuation of liabilities are set equal to risk-free rates, by

reference to the 10-year Government bond rate. However, for liabilities that extend beyond 10 years, the discount rate is based on a “gap” above the assumed inflation rate.

Since the 2006 Investigation, the assumed long term “gap” between wage inflation and the risk-free rate has been reduced from 2.15 per cent to two per cent. This gap equates to the difference between the long-term discount rate for the MAIB which is set to 5.6 per cent and the assumed rate of wage inflation being 3.6 per cent per annum. As previously noted, claims liability valuations have also been affected by the amendments to the Civil Liability Act which reduced the discount rate for calculating the present value of amounts for future economic loss from seven per cent to five per cent.

4.3.2 Claims inflation

As noted in Chapter 3, the MAIB included an allowance for superimposed inflation in calculating its scheduled benefits and common law claims costs in deriving its break-even premium. The MAIB has adopted a similar approach in valuing its outstanding claims liabilities, providing an allowance for superimposed inflation.

The MAIB’s submission states that:

Sources of superimposed inflation include increased utilisation of more expensive services, and new precedents and heads of damage in common law awards.⁵⁸

Since 2006, the MAIB has incorporated the following allowance for future superimposed inflation in its estimated value of outstanding claims:

- scheduled benefits: 1.5 per cent per annum;
- common law: 0.75 per cent per annum; and
- future care: nil.

These rates are in addition to the AWOTE escalation rate of 3.6 per cent, consistent with the MAIB’s assumed values for superimposed inflation in the break-even premium.

4.3.3 Risk margin on claim and premium liabilities

APRA requires insurers to hold a risk margin or prudential margin above the central estimate of outstanding claims liability and premium liabilities. Typically, APRA requires a margin of at least 20 per cent and the MAIB has included a prudential margin of 20 per cent in the outstanding claims liability for many years.

The risk margin is such that the outstanding claims liability has a 75 per cent probability of adequacy. The MAIB’s consulting actuary has advised that the

⁵⁸ MAIB Submission, p. 76.

prudential margin in the outstanding claims provision is expected to provide for a probability of sufficiency of not less than 75 per cent, which is the level required for private insurers.⁵⁹

In a similar manner to the outstanding claims liability, APRA requires a prudential margin to be set at a level that achieves a 75 per cent probability of sufficiency for premium liabilities. Premium liabilities relate to claims that occur after the scheme's balance date, for which a premium has already been received.

4.3.4 Claims liability valuation

The Regulator was also asked to take into account 'the appropriateness of the current claims liability valuations'. There has been no substantive change to the methodology applied to the valuation of claims liabilities since the 2009 Investigation.

However, the Regulator notes Finity's comments⁶⁰ that the risk margins adopted by the MAIB are based on benchmarks with other similar schemes and have not been reviewed, in light of MAIB's historical performance, for some time. Finity considers that given the size of the MAIB's liabilities, it would expect to see actuarial analysis of risk margins based on its own claims experience.

In the draft report, the Regulator considered there was merit in the MAIB undertaking this review in time for the next Investigation.

4.3.4.1 Submissions

As outlined in Section 4.2.5, the MAIB in its submission noted it undertakes regular reviews of its solvency target range which is signed off by the Shareholding Minister's in its corporate planning process. The MAIB considers this process most adequate and regards the Finity suggestion that further work in relation to risk tolerance to be unnecessary and an additional financial burden on Tasmanian motorists.

4.3.4.2 Claims liability valuation – Regulator's conclusion

However, as outlined in Section 4.2.6 the Regulator considers that this exercise should be undertaken as part the MAIB's upcoming review of its solvency target. The Regulator notes the MAIB's comments that it may increase its solvency target to between 20 and 30 per cent and that it does not consider a trigger for actions necessary if solvency rises above its target range. The Regulator supports Finity's recommendation that the MAIB's target solvency range should have regard to the MAIB's specific circumstances and not to APRA capital standards.

⁵⁹ MAIB Submission, p. 99.

⁶⁰ See Finity (2013) "Motor Accidents Insurance Board Pricing Investigation 2013" report prepared for the Tasmanian Economic Regulator, p.13.

This point aside, the Regulator is of the view that the MAIB's approach to the valuation of its claims liability is appropriate.

4.3.5 Liability Adequacy Test

The Australian Accounting Standard AASB1023 requires insurers to undertake a Liability Adequacy Test (LAT) which compares the following⁶¹:

- the discounted value of the expected future claims costs, plus an allowance for expenses and a prudential margin, that will be incurred after the balance date arising from policies issued prior to the balance date; and
- the unearned premium reserve (UPR) net of deferred acquisition costs (DAC).

The LAT requires the MAIB to recognise a liability or deficiency in respect of future claims arising from policies issued prior to the balance date if the discounted claims costs exceed the UPR.

The MAIB's submission stated that the LAT did not reveal a deficiency, after writing back DAC. Furthermore, the unexpired risk liability identified during the previous Investigation was entirely removed as at 30 June 2010.

Finity considered the approach used by the MAIB to estimate the LAT to be consistent with good practice and appropriate to the nature of MAIB's risks.⁶²

4.4 Investment policy

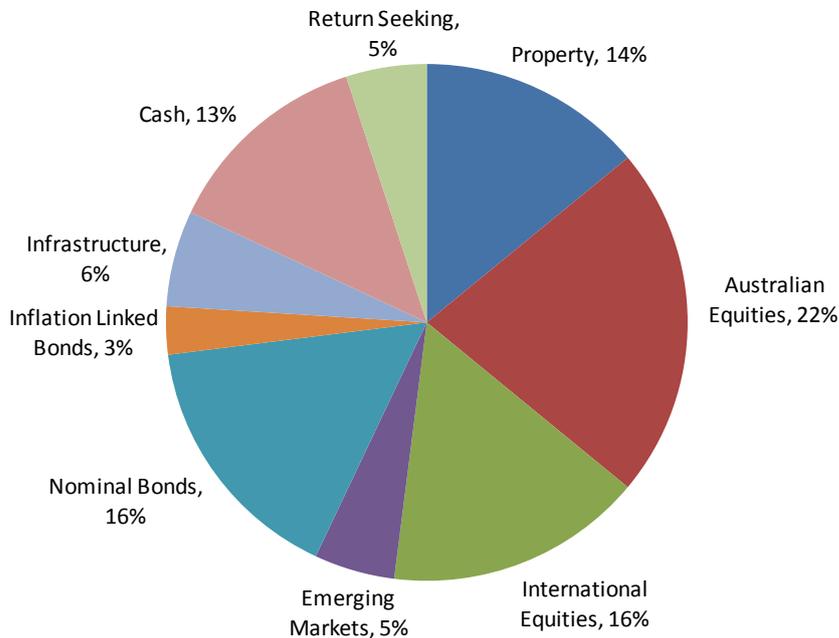
The MAIB's return on investments is a key variable that impacts on its solvency level. Strong investment performance impacts positively on solvency and, in turn, lessens the need for premium increases. However, poor performance reduces the amount of funds available to the MAIB to fund outstanding claims liabilities, resulting in funds needing to be obtained from other sources such as premiums. This section discusses the MAIB's investment strategy and performance.

4.4.1 Investment strategy

The MAIB's submission states that its investment policy is selected to achieve a satisfactory return for an acceptable level of risk. Investment income will in part depend on the type of investments the MAIB holds. Low risk cash investments and investments in Government Bonds are likely to deliver a more certain, but lower, return over the longer term than investments in equities. Figure 4.1 shows the MAIB's investment holdings by category as at 30 June 2013.

⁶¹ MAIB Submission, p. 69.

⁶² See Finity (2013) "Motor Accidents Insurance Board Pricing Investigation 2013" report prepared for the Tasmanian Economic Regulator, p.14.

Figure 4.1 MAIB investment profile - asset allocation as at 30 June 2013

Source: MAIB Submission, p. 96.

The impact of the change in investment profile over time is demonstrated in Table 4.1 which shows the proportion of investments in the growth and defensive categories at 30 June 1999, 2002, 2005, 2008 and 2012.

Table 4.1: MAIB investment profile - 1999 to 2012

	June 1999 %	June 2002 %	June 2005 %	June 2008 %	June 2012 %
Growth assets (shares and property)	22.0	47.0	59.0	56.0	63.0
Defensive assets	78.0	53.0	41.0	44.0	37.0
Total	100.0	100.0	100.0	100.0	100.0

Source: MAIB Submission, p. 97.

Following a solvency review in 2002, consultants Taylor Fry and Macquarie Risk Advisory, recommended that the MAIB give higher weightings to growth assets in light of its growing future care liabilities. As a result, the MAIB made a significant shift to growth assets and away from indexed bonds. In previous Investigations it was noted that a growth portfolio better matches the MAIB's long term liabilities, although recognising returns from a defensive portfolio are less volatile and thus provide a smoother profitability and dividend stream. Macquarie Risk Advisory noted that higher weightings to growth assets are reasonable in light of the MAIB's growing Future Care liabilities, as well as its strong financial position.

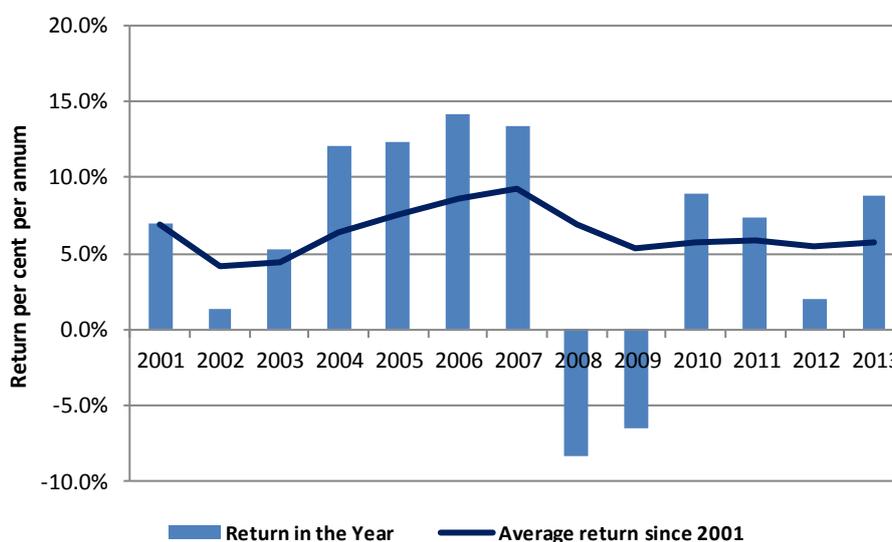
4.4.2 Actual and forecast investment returns

A history of the MAIB's investment returns is shown in Figure 4.2.

As can be seen from Figure 4.2, the average return since 2001 has been around 6.0 per cent per annum, but with considerable volatility from year to year, ranging from negative 8.8 per cent (2008) to 13.9 per cent (2006). The increased proportion of growth assets in the MAIB investment portfolio since 2001-02 would generally be expected to produce higher average returns, albeit with an increase in the volatility of those returns from year to year.

The MAIB considers that the higher weighting of growth assets has allowed it to benefit from the strong economic growth in Australia and some overseas markets in the period between 2003-04 and 2006-07. This was followed by two years of negative returns due to the GFC. Returns picked up again in 2010 and 2011 reversing the GFC's impact on the MAIB's solvency (as discussed above). Returns weakened again in 2012 but are expected to rebound to around nine per cent in 2013.

Figure 4.2: MAIB investment returns – financial years ending 30 June



Source: MAIB Submission, p. 97. Note the 2013 figure is an estimate made by the MAIB in its submission.
 Note: The return is calculated as the investment income and unrealised gains and losses net of investment expenses, divided by the average assets over the year.

For the purpose of calculating the break-even premium, the MAIB has assumed a rate of return on investments of 6.6 per cent, down from the 7.5 per cent return assumed in the 2009 Investigation. This was based on advice from its asset consultant (as discussed in Section 3.2.2.3) considering the MAIB's portfolio and their expectation of the market.

The variation between the forecast and the actual investment return will be a key factor in determining whether the MAIB's solvency remains strong.

4.5 Financial returns

The net assets in the solvency ratio are reduced by dividends calculated but not yet paid. Hence the amount of dividends required to be paid to shareholders, in this case the Government, has a substantial impact on the MAIB's solvency level. This

section discusses the Government's dividend policy and analyses actual dividend payments made.

4.5.1 Government's dividend policy

The GBE Act requires the MAIB to remit dividends and taxes to the State Government. The dividend policy applying to the MAIB is as follows:

- 50 per cent of the average of after-tax profits and losses for the relevant year and the previous four years is determined as a 'profit' dividend⁶³; plus
- such special dividends as deemed appropriate by the Government.⁶⁴

The MAIB notes that should it be required to pay a dividend in excess of 50 per cent of after tax profit and losses, solvency could fall below the target solvency range. Additionally, the MAIB's actuary concluded that dividends based on 70 per cent of after tax profits in the current and previous four years are unsustainable and would be detrimental to the solvency ratio.⁶⁵

Finity noted that the current dividend policy represents a sensible compromise between the requirements of the Government for dividends and the need to recognise short term impacts on the balance sheet due to the volatility of investment markets.⁶⁶

4.5.2 MAIB actual and forecast dividends

A 16-year history of the actual dividends paid by the MAIB is shown in Table 4.2 together with estimates of dividends proposed to be paid between 1 July 2012 and 30 June 2017.

⁶³ In accordance with Section 84 of the GBE Act, the Treasurer and Portfolio Minister must not approve a recommendation that would result in a Government Business Enterprise being required to pay a dividend that exceeds the profit of the Government Business Enterprise.

⁶⁴ Section 86 of the GBE Act enables the Portfolio Minister and Treasurer, jointly, to direct a Government Business Enterprise, by notice provided to it, to pay a special dividend. The Ministers must consult with the relevant GBE and must be satisfied that the GBE has sufficient funds to meet the dividend and its operational requirements. The Treasurer is required, within five sitting days after giving a direction under subsection (1), to lay a copy of the direction before each House of Parliament. The House may disapprove such a direction.

⁶⁵ See MAIB submission p.98.

⁶⁶ See Finity (2013) "Motor Accidents Insurance Board Pricing Investigation 2013" report prepared for the Tasmanian Economic Regulator, p.15.

Table 4.2: Dividend Payments – actual 1996-97 to 2011-12 and forecast 2012-13 to 2016-17

Year	Operating result before tax \$m	Operating result after tax \$m	Ordinary dividend Note 1 2 \$m	Special dividend Note 3 \$m	Total dividends \$m
1996-97	11.24	7.50	6.75		6.75
1997-98	4.17	3.70	1.90	3.00	4.90
1998-99	(10.10)	(5.50)	-	3.00	3.00
1999-00	6.05	3.06	1.53		1.53
2000-01	4.32	3.60	1.81		1.81
2001-02	(0.96)	4.20	0.90		0.90
2002-03	5.51	10.70	1.60		1.60
2003-04	70.30	51.11	7.27		7.27
2004-05	81.79	58.42	12.80		12.80
2005-06	133.19	96.19	22.06		22.06
2006-07	150.25	113.08	32.95		32.95
2007-08	(39.33)	(26.00)	29.62	10.00	39.62
2008-09	(26.31)	(14.04)	23.10	10.00	33.10
2009-10	101.80	74.30	24.57		24.57
2010-11	69.50	51.77	20.25		20.25
2011-12	(43.56)	(28.00)	6.14		6.14
2012-13 est.	102.49	71.74	15.58		15.58
2013-14 est.	48.27	33.79	20.36		20.36
2014-15 est.	50.67	35.47	16.48		16.48
2015-16 est.	56.48	39.53	15.25		15.25
2016-17 est.	58.86	41.20	22.17		22.17
Total all years	834.63	625.82	283.09	26.00	309.09

Source: MAIB Annual Reports and MAIB data based on MAIB preferred scenario.

Notes: 1. Ordinary dividends are shown against the year in which the profits are earned, but are not ordinarily paid until the following financial year.
2. Ordinary dividends are calculated as 50 per cent of the rolling average of the after tax profits for the current year and the previous four years.
3. Special dividends are shown against the year in which they are paid as they are not necessarily directly calculated based on previous year profits. Special dividends are not subject to the Government's dividend policy.

As noted in prior MAIB investigations:

“... it is important that the dividend policy not be applied as a routine formula, but it should take account of the solvency position of the scheme.

It would also be reasonable to review the appropriateness of the taking of any dividend if solvency falls below a particular threshold of, say, 10 per cent of outstanding claims provisions. Such a decision should however take account of the circumstances including the mid-term and long-term prognosis for investment earnings and financial position. Short-term events, such as a change in bond rates (and hence the discount rates for claims valuation), can have a significant impact on the reported performance of the scheme. There would be no choice in this matter if the MAIB was subject to the APRA requirements, and it would be prudent to adopt a similar, though possibly less stringent, approach.⁶⁷

As will be seen in Section 4.6 below, unlike the previous Investigation, the outlook for solvency is not of material concern for this Investigation. Furthermore, based on the analysis presented in Section 4.2, a zero per cent, rather than a 10 per cent, level of outstanding claims provision may be more appropriate. However, the Regulator notes that any decision on the dividends to be paid, particularly any special dividend, must be made in the context of the MAIB's desired solvency level.

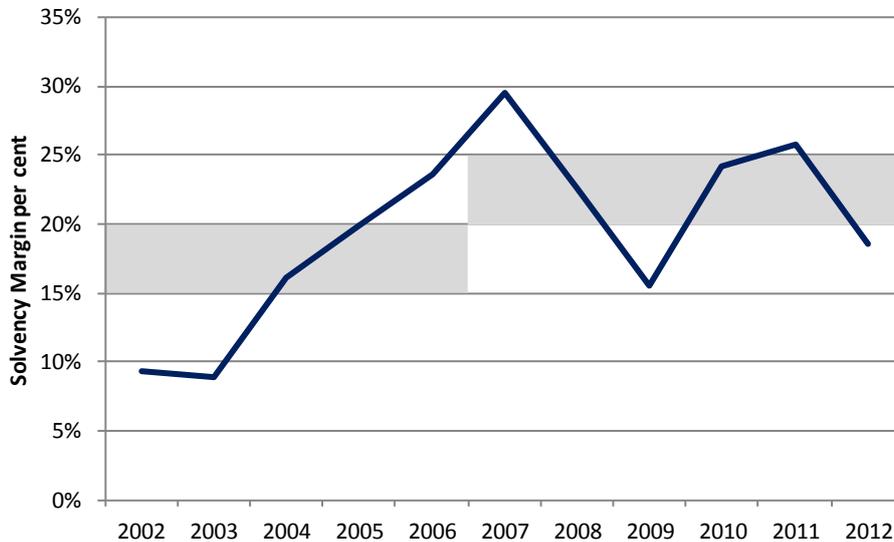
4.6 MAIB's solvency trends

Figure 4.3 provides details of the movement in the MAIB's solvency margin since 2002. Figure 4.3 shows that the MAIB's solvency margin improved markedly in the four year period from 2003-04 to 2006-07 as a consequence of strong investment returns. The measured scheme solvency at 30 June 2009⁶⁸ dropped to 15.5 per cent due to negative investment returns stemming from the GFC however it rebounded the following year. A similar decline to 18.6 per cent was experienced in 2012. However this is expected to be recovered within a year such that the MAIB's solvency margin will once again be back in its target solvency range.

⁶⁷ First noted in GPOC (2003) "MAIB Pricing Policies Investigation 2003, Final Report", pp.64-65.

⁶⁸ The measured solvency depends on the valuation of the outstanding claims liabilities, which is an estimate and subject to considerable uncertainty.

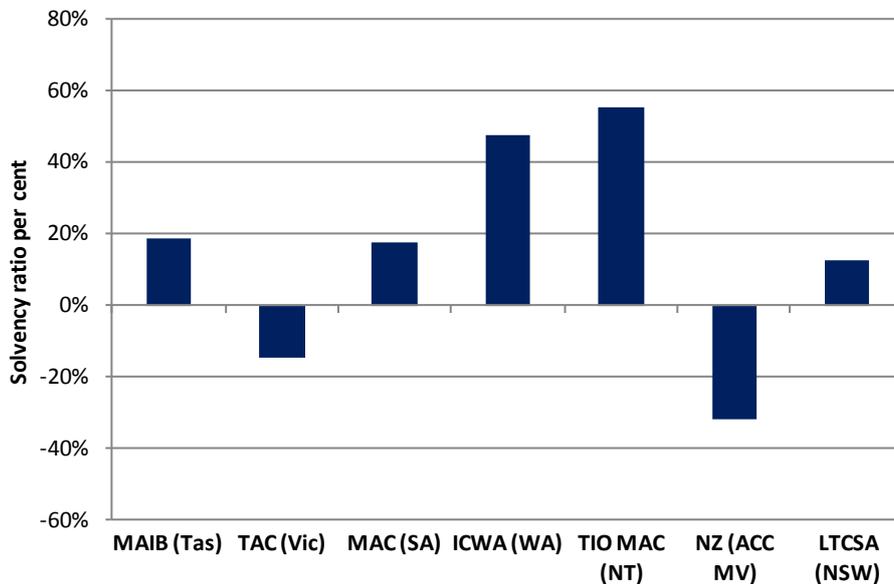
Figure 4.3: Trends in MAIB’s solvency margin



Source: MAIB Submission, p. 100.

Figure 4.4 compares the MAIB’s solvency ratio with the solvency ratios reported for other similar schemes. Aside from Western Australia and the Northern Territory which have very high solvency ratios, the MAIB has the highest ratio of the remaining schemes suggesting that it is in a reasonably strong financial position.

Figure 4.4: Comparative solvency ratios

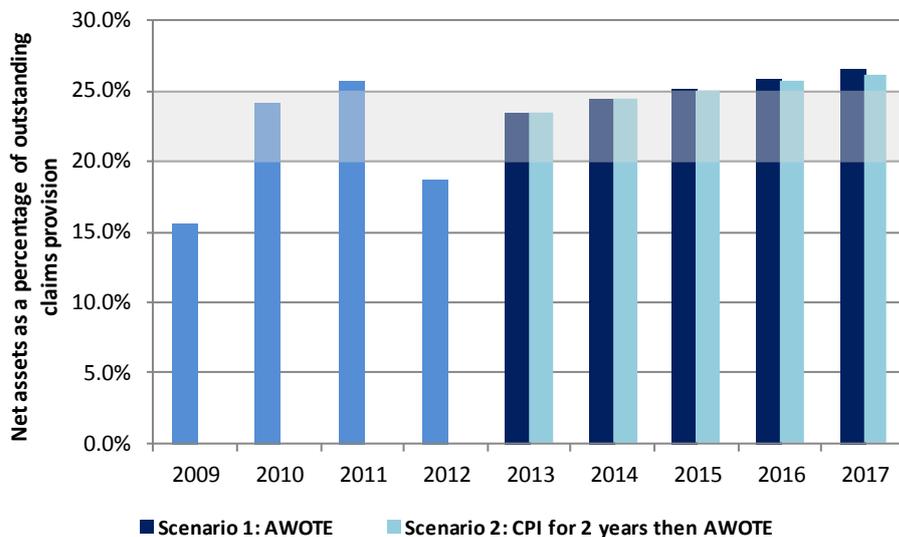


Source: Finity 2013 based on annual reports.

Note: For other schemes the solvency ratio is net assets as a percentage of outstanding claims liabilities. ACC includes only post 1999 accidents.

Figure 4.5 below shows the MAIB's forecast solvency based on the two scenarios presented in the MAIB's submission.⁶⁹ As can be seen, the MAIB expects that its solvency will return to its target range in 2012-13. Furthermore, the MAIB expects its solvency level to continue increasing each year to be slightly above its target range in 2016-17 at the end of the pricing period. In the long term, solvency is projected to increase primarily because long-term investment returns are projected to exceed the expected escalation in claims costs. This projected increase is in spite of the fact that assumed premium increases are expected to be lower than increases in claims costs.

Figure 4.5: Forecast solvency – 2008-09 to 2016-17



Source: MAIB Submission, p. 109.

4.6.1 Solvency trends – Regulator's conclusion

The Regulator notes that based on the above analysis the MAIB's current and future solvency position is within both the MAIB's current solvency target range and the solvency target range recommended by the Regulator in section 4.2.4 for pricing purposes. Given this, the Regulator does not see the need to adjust premiums to improve the MAIB's solvency.

⁶⁹ MAIB Submission, p. Viii.

5 AVERAGE PREMIUM

5.1 Insurance profit

The MAIB's profit arises from the following areas:

- any explicit loading for profit (profit margin) included in the premium;
- differences between actual experience in the areas of claims costs, expenses and investment income and that assumed in the calculation of premiums;⁷⁰ and
- investment returns on shareholders' funds.

This Chapter presents the Regulator's views on the adequacy of the profit margin on the MAIB's break-even premium. The profit margin, when added to the break-even premium, delivers the average premium required each year. The return on shareholders' funds was discussed in Chapter 4.

This Chapter also discusses the impacts of periodic registration and the number of unregistered vehicles on the MAIB's revenue collection.

5.2 Profit margin and risk

5.2.1 The MAIB's risk characteristics

In accordance with the GBE Act, the MAIB is required to achieve a commercial rate of return that should maximise value for its owner (the Government) and for the return to be sustainable given the long-term nature of the MAIB's business.

The Ministerial Charter governing the operations of the MAIB states that the Minister expects the MAIB to meet its financial and commercial targets, including target dividends, as set out in the annual Statement of Corporate Intent agreed with the Portfolio Minister and the Treasurer.

The Regulator is of the view that the MAIB scheme carries a unique set of risks, which should be reflected in the formulation of an appropriate profit margin in premiums.

The MAIB is a long-tailed insurer, with claims payments required many years after the accidents, whereas many commercial insurers predominantly write short-tail insurance where the claims costs can be ascertained with more accuracy at the time of the incident or accident and thus claims can be finalised more quickly. As there is greater uncertainty and therefore greater risk in the ultimate claims costs related to

⁷⁰ Favourable differences will contribute to profits, whereas unfavourable differences will erode profits.

an underwriting period for long-tailed insurers such as the MAIB, a higher expected profit margin is required.

Further, the MAIB operates in a single class of insurance, namely insurance for personal injury arising from motor accidents, and thus is unable to benefit from diversification across insurance product lines. On the other hand, the MAIB is the statutory monopoly provider of this product in Tasmania, and is therefore not exposed to market risk. Associated with this status as a monopoly provider is the fact that it is a regulated business and the Regulator has an obligation to take into account the need for the monopoly provider to be financially viable.⁷¹

Another point of difference between the MAIB and commercial insurers is the relatively small size of the Tasmanian market. As a smaller portfolio has relatively more variability in claims experience than a larger portfolio a higher profit margin is required.

The Regulator recognises that a crucial aspect of its review of premiums is that the outcome should mimic that of a competitive market. As such, its recommendations should reflect the outcomes that would be delivered by a competitive market. However, regulatory decisions are neither as harsh (individual insurers would be squeezed out of the market if the average premium across the market fell below its costs) nor as accommodating (individual insurers would be able to make higher than average profits if their costs were below those reflected in the average premium) as those of the market. As a regulated business, the MAIB's premiums are set to ensure its ongoing viability, but not such that it can make higher than 'normal' profits.

5.2.2 Profit margin in premiums

The Regulator's primary role is to consider the appropriate break-even premium plus a loading to reflect risk and an appropriate return for this part of the business. Even if the break-even premium is set at the correct level, then subsequent reserves arising from the insurance business at future years' end may vary from forecast and actual profit may, therefore, vary from forecast.

As discussed in Chapter 3, the Regulator's recommended break-even premium is estimated to be \$238.70 per annum exclusive of duty and GST. This is the amount required to fund claim payments, assuming that the outcomes are exactly in accordance with all assumptions underlying the determination of the break even premium. However, although the risks may be symmetrical (i.e. there is an equal prospect of estimates being greater than forecast or less than forecast), a shareholder has a legitimate expectation of returns that reflect the risks associated with the insurance business. Insurers are required to maintain levels of capital sufficient to meet solvency requirements. The insurer receives investment returns on these funds, but the additional returns required to recognise the insurance risk must be generated by a loading on the break-even premium.

⁷¹ Section 31 of the *Economic Regulator Act 2009*.

In previous investigations, the Commission provided the following profit margins in premiums:

- three per cent in 1997;
- six per cent in 2000;
- seven per cent (plus an additional one per cent to cover estimated revenue shortfall⁷²) in 2003;
- 17.8 per cent (plus an additional one per cent to cover estimated revenue shortfall) in 2006; and
- 30.0 per cent (plus an additional one per cent to cover estimated revenue shortfall) in 2009.

In relation to the substantial margin provided in 2009, it should be noted that the profit margin was set during the GFC. The Regulator considered that a long-term target of 10 per cent minimum profit margin was appropriate, the same as the target profit margin of the TAC. However, the average premium at the time resulted in a higher profit margin. The Regulator considered that the higher average premium was suitable in the short-term to restore the financial position of the MAIB, whose investments had declined in value following the GFC.

The MAIB's submission⁷³ stated that it had selected a target profit margin of 10 per cent taking into account a range of factors including:

- the requirements of the GBE Act;
- the Commission's previous assessment;
- the revenue shortfall between the theoretical premium collection and the actual amounts collected;
- target profit margins by other MA insurance underwriters; and
- actuarial advice regarding a reasonable margin, taking into account the volatility inherent in the business, and the returns required by shareholders.

The MAIB's submission also states⁷⁴ that the target profit margin required to produce this return has been determined by modelling the insurance business' returns for a single year. The modelling was undertaken by the MAIB's consulting actuary, who made assumptions in relation to:

- the MAIB's break-even premium;

⁷² The additional one per cent replaces the premium revenue shortfall as discussed in section 5.2.4.

⁷³ MAIB Submission p.103.

⁷⁴ Ibid.

- the target after-tax return on capital;
- a target level of capital of 22.5 per cent, based on the mid-point of the MAIB Board's target range of 20 to 25 per cent; and
- the claims payment pattern, and future outstanding claims liabilities, consistent with the break-even premium calculations, plus a 20 per cent prudential margin.

The outcome of the MAIB's modelling indicates that, without any premium increase on 1 December 2013, the average premium would be \$287 which would result in an expected profit margin in the premium of around 10 per cent based on a real rate of return of three per cent per annum. However, based on the Regulator's recommended break-even premium, this profit margin increases to around 20 per cent.

The MAIB's submission also summarises profit margins provided in premiums in Victoria and New South Wales.⁷⁵

The scheme in Victoria is underwritten by the Transport Accident Commission (TAC). The scheme was last reviewed in 2005-06 by the Essential Services Commission which concluded that the proposed premium, which provided for a profit margin in premiums of 10.2 per cent, was expected to be adequate. This was slightly higher than the TAC target profit margin of 10 per cent. However, the TAC used a 5.0 per cent per annum real rate of return in excess of CPI in estimating the break-even premium compared to the 3.0 per cent real rate of return in excess of average weekly earnings adopted by the MAIB.

As noted in Chapter 2, CTP insurance in NSW is underwritten by private sector insurers and overseen by the Motor Accidents Authority (MAA). Private sector insurers are required to file proposed rates, and the basis for those rates, with the MAA. Over the past five years, filed profit margins have ranged from 1.9 per cent to 9.3 per cent for individual insurers, with an industry average of between 7.7 per cent and 8.6 per cent.⁷⁶ Previous MAA annual reports have noted that "since the introduction of the Lifetime Care and Support Scheme, lower profit margins have been experienced by the insurers".⁷⁷ This is not unexpected as the "removal" of the lifetime care claims (which are analogous to the future care claims in Tasmania) from the private insurers' portfolios in NSW means the relative uncertainty of the remaining risks is lower, so a lower profit margin is required.

Based on advice from its consulting actuary, the MAIB⁷⁸ selected a target profit margin of 10.0 per cent for premium purposes. The MAIB notes that this advice is based on comparisons with other schemes, and after taking into account differences

⁷⁵ Ibid. pp. 104-105.

⁷⁶ See MAA Annual Report 2011-12, p.73.

⁷⁷ See MAA Annual Report 2007-08, p.73.

⁷⁸ MAIB Submission, p. 105.

between the assumptions used by the MAIB and those adopted for other schemes in deriving break-even premiums.

5.2.2.1 Profit margin – Regulator's conclusions

In its draft report, the Regulator recognised that the profit margin in the premium has multiple objectives. In addition to reflecting an appropriate risk-related return on capital for the shareholder, an appropriate profit margin should also take account of the MAIB's target capital range. Finity notes that the insurance profit margin balances a need for solvency and support for dividends whilst maintaining tension on premiums. Profit margins are also important in maintaining a level of comfort that the MAIB has an ability to recover from a poor financial result without further increasing premiums.⁷⁹

The Regulator considers therefore that the profit margin should be considered at two levels. The first is the normal level of profit that the MAIB should be able to earn in normal economic times and when solvency is at a suitable level. The second is a premium on this normal profit margin to assist the MAIB return to its solvency target range at a desirable time in the future.

With regards to the normal profit, the Regulator considers that the 10 per cent proposed by the MAIB is reasonable. This view is based on the comparable evidence provided by the MAIB with regards to other jurisdictions. Furthermore, it is based on the analysis undertaken by Finity in its report for the Regulator, in which it considers a target profit of around 10 per cent as reasonable and consistent with other government owned CTP insurers.⁸⁰

With regards to the premium on the normal profit margin the Regulator considers that four things need to be considered:

- the gap between the MAIB's current solvency level and its target solvency range;
- the acceptable time horizon to recover from a poor solvency position;
- the impact of future investment returns on reaching the target solvency level;⁸¹ and
- the impact that increasing the profit margin may have on this timing.

During the previous Investigation the MAIB's solvency level had fallen significantly below its target solvency range at the height of the GFC. Furthermore, financial markets were expected to take some time to rebound leading to lower forecast

⁷⁹ Finity (2013) "Motor Accidents Insurance Board Pricing Investigation 2013" report prepared for the Tasmanian Economic Regulator, p.16.

⁸⁰ See Ibid pp.17-18.

⁸¹ This was discussed in section 4.2.3 and section 4.2.4.

investment returns. Given this, a 20 per cent premium on the profit margin was granted to assist the MAIB in returning to its target solvency level more quickly.

For the current Investigation, the discussion in Chapter 4 demonstrated that the MAIB is also currently outside its target solvency range, albeit by a much smaller amount. However, the MAIB expects that it will return to within its target solvency range within one year due to improved investment returns.

Additionally, both the current and future expected solvency levels are within the Regulator's recommended solvency range for premium setting purposes.

Given this, the Regulator recommends against including a premium on the profit margin for the period covered by the premium order that will be made as a result of this Investigation.

5.2.3 Impact of periodic registration

As discussed in Chapter 6, periodic registrations⁸² have been permitted for all vehicles since 1 December 2001. A surcharge is applied to all periodic registrations to cover the foregone investment income and the additional collection costs. Assuming that periodic registrations are paid on time at each renewal period, the impact of periodic registrations should be revenue neutral for the MAIB. Hence, no additional allowance is required in the profit margin for this factor. However, the MAIB advises that there are some instances where motorists do not renew their periodic registrations, leaving a revenue shortfall. This is discussed in section 5.2.4.

5.2.3.1 Periodic registrations – Regulator's conclusion

In its draft report, the Regulator concluded that an additional allowance is not required in the profit margin to cover periodic registrations per se. However, to the extent that some revenue shortfall arises due to the failure of motorists to re-register vehicles on time, the Regulator considers that this is accommodated in the general allowance for revenue shortfall (see section 5.2.4 below).

5.2.4 Revenue shortfall

Historically, actual revenue received has been less than theoretical revenue because there is a difference between the actual premium collected and the 'theoretical' collection if the schedule of premium rates is applied to the number of registered vehicles.

The MAIB⁸³ attributes this to the following factors:

- a shift in the mix of vehicles (from one class to another), or from non-pensioner status to pensioner status;

⁸² Half-yearly for all vehicles and quarterly for heavy vehicles.

⁸³ MAIB Submission, p. 104.

- non-renewal of periodic registrations (the theoretical premium calculation assumes all registered vehicles pay a premium for twelve months, whether in one payment or in instalments). There may also be non-payment of a periodic registration, but subsequent payment of the next periodic amount; and
- 'gaps' between periods of registration. An example is the sale of a self-drive hire car – the hire car company may cancel the registration when it divests itself of the vehicle and it may remain unregistered until purchased by a private owner through the used car market. A similar situation may arise on cancelling registrations for Government vehicles and subsequent sale into the private market and part-year registrations (for seasonal agricultural equipment, for example).

5.2.4.1 Revenue shortfall allowance – Regulator's conclusions

In previous investigations, it was considered appropriate to make some allowance in the average premium for this revenue shortfall and thus, an allowance of one per cent over the recommended profit margin was provided.

In addition to the considerations raised by the MAIB in section 5.2.4., the Regulator notes the current and ongoing impact of the growing number of pensioners on the MAIB's finances.

Taking account of the above factors, the Regulator again considers that the one per cent allowance in the average premium is appropriate to recover the potential revenue shortfall.

5.3 Financial implications

This section presents the relative financial impacts on the MAIB of both the MAIB's proposals and the Regulator's recommendations.

The MAIB's submission includes two scenarios based on its assumptions and proposal for the break-even premium and profit margin.⁸⁴

Under the first scenario (Scenario 1) premiums are allowed to increase in line with AWOTE from 1 December 2013, followed by increases in line with AWOTE in the following three years (assumed to be 3.5 per cent per annum for illustrative purposes).

Under Scenario 1 the MAIB expects to:

- maintain the expected current long-term profit in premium at around 13.5 per cent based on a real rate of return of 3.0 per cent per annum; and
- achieve a net return on target capital of between 12.5 per cent and 13 per cent over the next four years.

⁸⁴ MAIB Submission, p. 97.

Under Scenario 2, premiums increase in line with CPI from 1 December 2013 until 30 November 2015 and then in line with AWOTE thereafter. The MAIB expects that under this scenario, the proposed premium increases would:

- reduce the expected long-term profit in premiums, based on a 3.0 per cent annual real rate of return, to 10.8 per cent; and
- provide a slightly lower net return on capital (between 7.1 per cent and 7.4 per cent per annum).

The MAIB states that the financial forecasts are actuarial forecasts based on models of future claims costs, taking account of the average experience in the recent past and forecasts of investment returns. Further, the MAIB states that these forecasts do not specifically allow for the expected considerable variability in claims costs and investment returns and the resultant annual accounting profit and measured solvency.

Under the Regulator's recommendations, the MAIB's break-even premium is reduced by removing the precautionary allowance for the expected doubling of hospital costs as discussed in Chapter 3 and the profit margin is set to 10 per cent (plus the 1.0 per cent revenue shortfall allowance). Furthermore, the Regulator's recommendations do not involve any increase in inflation (wage or CPI) in the first year of the pricing period.

Table 5.1 presents the average premium and implied profit margin of the MAIB's proposed scenarios and the Regulator's recommendations which remove the impact of potential hospital bed-day cost increases from the average premium.

Table 5.1: Financial impacts of the MAIB's proposal and the Regulator's recommendation

	MAIB Scenario 1	MAIB Scenario 2	Regulator's recommendation
Break-even premium (\$)	258	258	239
Average premium (\$)	297	294	266
Percentage change from current average premium (%)	3.6	2.5	-7.4
Average after-tax profit in premium (1 December 2013 to 30 November 2017) (%)	13.5	11.2	11.0
Average return on target capital ^{Note 1} (1 December 2013 to 30 November 2017) (%)	7.7	7.2	7.0
Average return on shareholders' funds (1 December 2013 to 30 November 2017) (%)	10.9	10.4	10.3

Source: MAIB Submission and OTTER analysis.

Note: 1. Target capital is assumed to be 22.5 per cent of the outstanding claims provision; the mid-point of the target range (20 per cent to 25 per cent). This measure is presented as a better measure of long-term sustainability than the return on shareholders' funds, given the fluctuations in the actual capital held.

Table 5.2 presents the estimated solvency level of the MAIB under the MAIB's two scenarios and the Regulator's recommendation. As can be seen, none of the scenarios impact adversely on the MAIB's solvency level.

Table 5.2: Forecast solvency ratios – 2012-13 to 2016-17

Forecast solvency ratios	2012-13 %	2013-14 %	2014-15 %	2015-16 %	2016-17 %
MAIB Scenario 1	23.4	24.5	25.2	25.9	26.5
MAIB Scenario 2	23.4	24.5	25.1	25.7	26.2
Regulator's recommendation	24.0	25.3	25.8	26.3	26.8

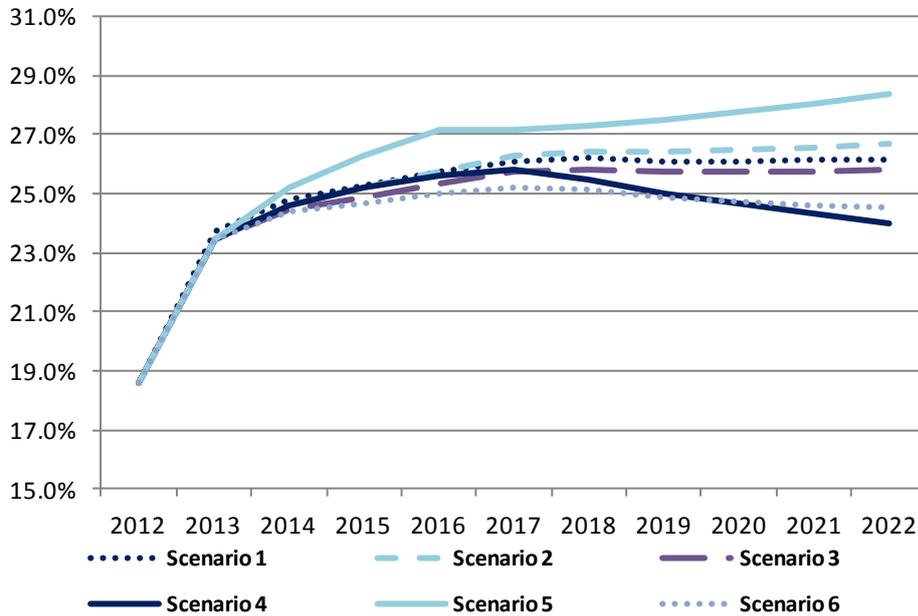
Source: MAIB and OTTER analysis.

Appendix B provides summary financial statements, including forecast solvency levels for the MAIB's preferred scenario and the Regulator's recommendation.

In addition to the above, the Regulator requested the MAIB to model a number of scenarios that have been discussed in this report. Specifically, these scenarios include:

1. adopting the Regulator's recommended scenario that removes the hospital cost increase for premiums for all years of the pricing period, however hospital costs double from the second year of the pricing period;
2. a reduction in claims frequency for Scheduled Benefits and Common Law claims to 5.65 and 1.61 respectively and associated reduction in premiums over the pricing period;
3. a reduction in premiums based on the reduced estimated claims frequency discussed in point 2, with actual claims frequency equal to that estimated by the MAIB;
4. actual claims frequency equals 5.65 and 1.61 for Scheduled Benefits and Common Law claims respectively, however premiums remain unchanged which are based the MAIB's proposed claims frequency rates. Additionally, premiums are not escalated each year;
5. adjustment of the real rate of return to four per cent; and
6. premiums are based on a real rate of return of four per cent however actual investment returns achieve the MAIB's proposed lower return of three per cent.

The primary purpose of these scenarios is to consider the impact, if any, if actual outcomes differ from the assumptions adopted in the Regulator's recommendation. Figure 5.1 shows that under all cases the MAIB's solvency level remains either within or above the MAIB's target solvency level and above the Regulator's recommended lower bound limit for pricing purposes. Given this, the Regulator does not consider that there will be material impact on the MAIB if the assumptions underlying the recommendations made in this report prove to be incorrect.

Figure 5.1: Forecast solvency Regulator's sensitivity analysis

Source: MAIB Data.

5.4 Regulator's recommended maximum average premium

5.4.1 MAIB historical average premiums

Table 5.3 shows the premium that has been charged for private (Class 1) motor vehicles under the MAIB scheme for the past 16 years relative to average wage growth, as determined by AWOTE.

Table 5.3 also shows that the annual average premium increases were above AWOTE from 1997-98 to 2003-04. Increases required above AWOTE generally reflect above-average increases in costs.

Table 5.3: Premium history and comparison with AWOTE

Policy year ^{Note 1}	Class 1 premium ^{Note 2}	Percentage change (%)	AWOTE (%)	Increase above AWOTE (%)
1997-98	226	5.12	2.6	2.5
1998-99	239	5.75	3.3	2.5
1999-00 ^{Note 3}	259	8.37	3.4	5.0
2000-01 ^{Note 4}	271	4.63	3.6	1.0
2001-02 ^{Note 4}	288	6.27	5.3	1.0
2002-03 ^{Note 4}	307	6.60	5.6	1.0
2003-04 ^{Note 3}	324	5.54	3.3	2.2
2004-05	332	2.47	4.9	-2.4
2005-06	332	0.00	4.6	-4.6
2006-07	332	0.00	4.8	-4.8
2007-08	332	0.00	3.6	-3.6
2008-09	332	0.00	4.5	-4.5
2009-10	344	3.60	3.6	0.0 ^{Note 5}
2010-11	344	0.00	5.6	-5.6
2011-12	344	0.00	4.2	-4.2
2012-13	344	0.00	4.3	-4.3

Source: MAIB Submission, p. 43.

- Notes:
1. The policy year begins on 1 December.
 2. The premium is inclusive of GST (from 2000), and excludes duty (increased from \$6 to \$20 from 1 October 2012).
 3. Increases related to the introduction of The New Tax System and GST and its impact on the cost of new claims.
 4. Increases as partial compensation for the impact of the introduction of The New Tax System and GST, and its impact on the outstanding claims liability (old claims).
 5. Premium increase in 2009 was in accordance with the maximum premium increase allowed under the 2009 GPOC premiums order, which was based on a forecast increase in AWOTE of 3.5 per cent, not actual AWOTE over the reference period.

Premium increases from 2004-05 to 2008-09 were less than AWOTE and below the maximum premium increases allowable under the MAIB Premiums Order in each of those years, which specified a maximum increase equal to the increase in AWOTE.⁸⁵ Further, there has been only one premium increase since the 2006 Investigation. The MAIB's actuary reviews the MAIB's required premium pool each year to determine the need to increase premiums to cover any increasing costs. A primary reason for not increasing premiums in recent times has been the MAIB's favourable claims frequency experience as discussed in Chapter 3.

⁸⁵ The MAIB Premiums Order defines AWOTE as 'the dollar figure for full-time adult ordinary time earnings for persons set out in that part of the Average Weekly Earnings under the heading 'Average Weekly Earnings', Australia: Original.'

5.4.2 Proposed maximum average premium

In its draft report, taking account of its assessment of the break-even premium, revenue shortfall, benchmark levels of commercial profit, and forecast financial impacts, the Regulator proposed a *maximum* average premium of \$266 effective from 1 December 2013. This reduces the current average premium by \$21 from \$287. The assessed maximum average premium represents an average profit margin of 10 per cent (plus 1 per cent loading) over the Regulator's assessment of the break-even premium of \$239.

In Sections 3.4.1.3.1 and 3.4.2.3.1 the merits of reducing premiums based on forecast cost reduction versus maintaining higher premiums for stability and to provide flexibility was discussed. This was specifically based on the discussion of the MAIB's historical trend claims frequency rates versus its forecast rates. The Regulator considered reducing the MAIB's proposed claims frequency rates to be consistent with historical trends. However, the Regulator accepted the argument put by the MAIB that the historical unexpected declines in claims frequency had offset increases in claim size. This allowed the MAIB to not increase premiums in line with the maximum allowable premiums in the 2009 Pricing Order. The MAIB notes that the flexibility of the pricing order allows them to make this decision and keep premiums stable.

The alternative option would have been for the Regulator to decrease premiums based on estimated claims frequency reductions. Premiums would then have been expected to gradually increase each year with increases in claims costs. This is because any reduction in claim frequency would have already been factored into the break-even premium. However, if claims frequency increased, the MAIB would not be able to increase costs above the maximum allowed premium increase to recover these additional costs during the pricing period.

Whilst the Regulator proposed the above decision with respect to claims frequency, it proposed recommending against accepting the MAIB's proposal to increase premiums to allow for a potential doubling of hospital bed-day costs. Unlike claims frequency, the latest information available to the Regulator indicates that hospital bed-day costs are not expected to increase during the first two years of the pricing period (as opposed to possible claims frequency reductions based on estimation). Furthermore, the magnitude of any increase is unclear. Given this, the Regulator did not consider it appropriate to maintain premiums at higher levels than necessary to meet current costs simply to maintain price stability. Furthermore, the Regulator notes that the MAIB's solvency is not expected to be materially impacted by this potential cost increase as outlined in Figure 5.1 for Scenario 1 of the Regulator's sensitivity analysis.

5.4.2.1 Premium escalation

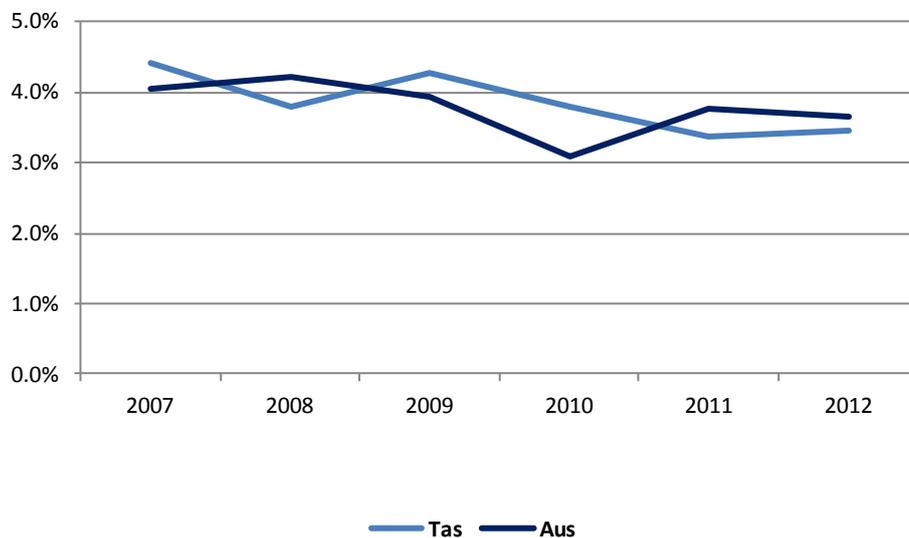
As noted in Chapter 3, claims costs (future care, scheduled benefits or common law claims) principally relate to payments for medical care and related treatment and loss of income. Claims costs therefore tend to move in line with movements in AWOTE.

The MAIB is proposing under its preferred option, Scenario 1, that premiums be escalated in line with Australian AWOTE from 1 December 2013 until 30 November 2017.

The current MAIB Premiums Order defines AWOTE as ‘the dollar figure for full-time adult ordinary time earnings for persons set out in that part of the Average Weekly Earnings under the heading ‘Average Weekly Earnings’, Australia: Original.’ The Australian AWOTE index has been used previously instead of the Tasmania AWOTE index because it has been considered that the Tasmanian index was too volatile due to a small sample size.⁸⁶ Furthermore, it was previously considered that the rate of change between the two indices was not expected to be material. However, the MAIB’s submission notes that historically Australian AWOTE has been higher than Tasmanian AWOTE by between 0.5 per cent and 0.25 per cent per annum.

Figure 5.2 below shows the historical growth in Australian compared to Tasmania AWOTE and confirms that additional volatility of the Tasmania series. Movement to an index that more closely reflects Tasmanian wages would be ideal, however if such a change was made based on Tasmanian AWOTE, premium changes could be quite volatile from year to year.

Figure 5.2: Average annual growth in AWOTE for Tasmania and Australia – 2007 to 2012



Source: Australia Bureau of Statistics, CAT 6302 Tables 3 and 13F.

An alternative index to use is the wage price index (WPI). The WPI is considered a more meaningful measure of underlying wages growth than average weekly earnings, as it abstracts from structural changes in the labour market (such as the full-time/part-time split and industry shares) to focus on changes in wage rates for specific positions within each selected enterprise.

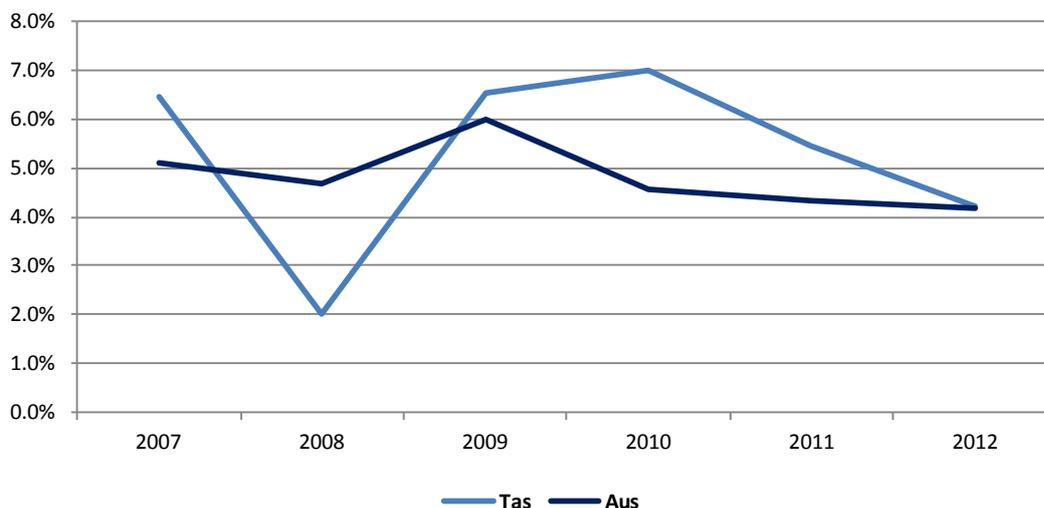
⁸⁶ See GPOC (2000) ‘MAIB Pricing Policies Investigation – Final Report’, p.91 footnote 58.

Movements in average weekly earnings can be affected by changes in the level of earnings per employed person and changes in the composition of the labour force (particularly changes in the proportions of full-time and part-time employed persons). As AWOTE is based only on full-time employees, it is not affected by changes in the share of part-time workers in the sample, but is susceptible to changes in the occupation and skill levels of the workforce. For this reason, the WPI is preferred in most cases as a superior measure of wage growth.

In general WPI may also be considered a preferred measure to AWOTE because it is based on a larger sample size, and is therefore more representative of actual wages growth. However, this comparison is more relevant when comparing Tasmanian WPI and Tasmania AWOTE. Australian AWOTE is based on a much larger sample size and has been reliably used for several years. In addition, the WPI growth rates have tended to display considerable inertia over the business cycle, since some wage growth is the result of positions being reclassified, which is one of the factors used in constructing the WPI.

Figure 5.3 below compares the growth of the WPI for both Australia and Tasmania. The long run average WPI for Tasmania is 3.5 per cent compared to 3.6 per cent for Australia. The Regulator notes that the MAIB has forecast Tasmania AWOTE to grow by 3.6 per cent which is consistent with the historical WPI growth rates.

Figure 5.3: WPI yearly growth for Tasmania and Australia



Source: Australia Bureau of Statistics, CAT 6345.0 Table 2a.

The WPI for the previous financial year is released in August each year. The premium year commences on 1 December each year, and the MAIB is required to submit its proposed premium changes to the Regulator well in advance of the commencement of the new premium year (usually in September or October). If the WPI were used to index premiums the timing of the release of WPI would therefore appear to align with the timeframe for the MAIB's annual submission.

However, at present the Regulator considers movement away from the current approach of using Australian AWOTE is not necessary. Australian AWOTE has historically been a relatively stable and reliable series for use in pricing

determinations. This means that there is also likely to be less disruptions to this data series providing continuity over time. That said, the Regulator may reconsider this position in the future and is inviting stakeholders to comment on this particular issue.

As discussed above, given that the Regulator's estimated average premium for the first year of the pricing period includes the target profit margin of 11 per cent, the Regulator does not consider premiums should be inflated by the AWOTE for the premium year commencing on 1 December 2013. The Regulator considers that premiums should be inflated by a maximum of the previous financial year AWOTE from 1 December 2014 until the end of the pricing period. The Regulator notes that each year the MAIB's consulting actuary considers the MAIB's required premium pool annually to determine whether a premium increase up to the maximum allowed is warranted. Based on these assessments, the MAIB has not increased premiums for some years. The Regulator considered this approach to be prudent and encourages the MAIB to continue this approach.

5.4.3 Submissions

The MAIB and its consulting actuary, Taylor Fry, both provided submissions outlining their concerns with the Regulator's proposed recommendations. In summary these submissions assert that:

- the MAIB has always practiced the importance of affordability and stability with premiums increasing in nominal terms only twice in the past 10 years;
- motorists prefer premium stability, without wondering what shocks are going to appear in their next renewal;
- it is difficult to conclude how the proposed premium volatility is in the interests of the MAIB or the motorists;
- there is a strong likelihood that premiums will need to increase annually to offset the proposed year one premium decrease;
- there are two sources of additional costs, including hospital bed-day costs and the NIIS that are likely to affect MAIB premiums in the pricing period;
- it is unlikely that any potential improvement in claims frequency would offset these additional costs; and
- the draft report does not address the trade-off between a one year reduction in premiums and continuation of premium stability.

In its submission, the MAIB suggested, as an alternative, holding premiums constant at their current nominal level for the years commencing 1 December 2013, 2014 and 2015 and adjusted by AWOTE in the final year of the pricing period. This is a much lower level of escalation than its preferred proposal in its preliminary submission which was to inflate premiums each year by AWOTE. The MAIB considers that this meets its principle of premium stability whilst achieving the Regulator's objective of ensuring premiums are not excessive.

5.4.4 Recommended maximum average premium – Regulator's final recommendations

For premium stability to occur, prices need to remain higher than costs in the short-term which allows the MAIB to earn above normal profit. The Regulator is required to determine premiums based on efficient cost and considers allowing for premiums to be above efficient cost for the purpose of premium stability to be inconsistent with that objective. In this light, the Regulator does not consider that the proposed hospital costs and potential costs from the implementation of the NIIS to be efficient costs at this time. Furthermore, it is the Regulator's experience for all of the other industries that it regulates, that consumers prefer lower prices when they are available and accept that costs and prices generally rise over time. Additionally, neither the MAIB nor Taylor Fry presented any evidence to substantiate their views on motorists' preferences.

Furthermore, Table 5.4 presents the difference between the impact of the MAIB's new proposal and the Regulator's recommendations.⁸⁷ As can be seen, the MAIB's proposal leads to higher costs to the consumer. This includes in net present value terms, which is a common measure used to determine the economic impact of different proposals in a cost benefit analysis. Under this measure, consumers are \$32 worse off under the MAIB's proposal when compared to the Regulator's proposal.

Table 5.4: Comparison of maximum average premium proposals – 2012-13 to 2016-17

Proposal	2013-14	2014-15	2015-16	2016-17	Total	Average	NPV (7%)
MAIB new proposal	287	287	287	297	1 158	290	980
Regulator's recommendation	266	276	285	296	1 123	281	948
Difference	21	11	2	2	35	9	32

Source: OTTER analysis.

At times, regulators may choose a smoothing price path for consumers if it considers that costs may be lumpy in coming years that would otherwise lead to volatile pricing. This approach at first glance appears consistent with the MAIB's new proposal. However, normally a regulator would adopt a price path that ensures consumers and a regulated entity are no worse off in net present value terms compared to the more volatile option. The MAIB's new proposal does not meet this objective because it leads to motorists paying \$32 more. To meet this objective, the average premium would need to be reduced to \$280 and remain at this level throughout the pricing period.

However, the Regulator does not consider that this approach is appropriate for the current Investigation because it would effectively lock in all AWOTE inflation costs

⁸⁷ Where AWOTE increases apply in the proposal, the rate used is 3.6 per cent which is consistent with the MAIB's preliminary submission.

each year without having regard for possible declines in claims frequency. Section 5.4.2 discussed the reasoning for the Regulator accepting the MAIB's proposed claims frequency estimates rather than forecasting an estimate based on the historical declining trend. As noted, the flexibility of the pricing order allows the MAIB to not increase premiums if claims frequency continues to fall, offsetting claim size inflation. This approach also protects the MAIB by allowing for premium increases if claims frequency does not fall. However, if a price smoothing approach is adopted as outlined above, potential claims frequency benefits cannot be passed onto consumers.

Given this, the Regulator has decided to retain its proposed recommendation for the final report. This includes that:

- the **maximum** average premium to be \$266 effective from 1 December 2013;
- premiums should be inflated by a maximum of the previous financial year AWOTE from 1 December 2014 until the end of the pricing period; and
- the Regulator encourages the MAIB to continue its current approach of only increasing premiums as required after its annual breakeven premium assessment and experience with claims frequency.

6 RELATIVITIES AND MAXIMUM PREMIUMS

6.1 Basis of the scheme

Chapter 4 discussed the Regulator's analysis of an adequate profit margin in premiums and its recommended average premium. However, the actual MAIB premium payable by each vehicle owner varies according to the class of the vehicle insured. The relationship between premiums for different classes of vehicles is referred to as 'premium relativity'.

The premiums are set out in a premiums order. The current MAIB Premiums Order 2009 sets out the classes into which all registered vehicles are allocated.⁸⁸ The standard motor car class (Class 1 vehicle), having the largest number of vehicles, is given a relativity of one with the premiums for other classes of vehicle expressed as a proportion (higher or lower) of this premium. It should be noted that the premium for Class 1 vehicles will not necessarily be the same as the average premium.

The Terms of Reference state (additional matters two and three) that the Regulator must take into account:

... whether any cross-subsidies remain in the current pricing structure (especially in relation to different vehicle classes and different risk types) and if they exist, the benefits and costs of retaining these cross-subsidies.

Section 30(3) of the MA Act requires that premiums be set by reference to:

- the type or class of the motor vehicle; and
- the conditions to be complied with in relation to the use of the motor vehicle.

These conditions may include⁸⁹ whether the vehicle is let for hire, or any other purpose for which the motor vehicle is used or intended to be used.

The Regulator notes that schemes in some jurisdictions use other means to differentiate risk for the purposes of setting premiums, thereby providing a higher degree of differentiation of risk in their schemes. For example, in Victoria, South Australia and New South Wales there are regional premiums and in New South Wales premiums are further broken down to account for some personal attributes of the owner. In Tasmania, pensioners are the only category distinguished by the class of vehicle and personal attributes.

⁸⁸ A full list of vehicle classes is given in Appendix E.

⁸⁹ Section 30(4) of the MA Act.

As a consequence of the design of the Tasmanian scheme, the Regulator acknowledges there will be cross-subsidies between classes if other characteristics were taken into account. The Regulator has therefore formed the view that it is tasked with assessing the size, if any, of cross-subsidies between classes and ascertaining the benefits and costs of these cross-subsidies. Based on this conclusion, the Regulator considers it is desirable as a first principle that the premium relativities reflect, as closely as practicable, the claims cost attributable to each vehicle class to minimise the potential for cross-subsidies between classes.

However, there are practical problems in assessing the absolute value of any cross-subsidies. The major problem is having sufficient data to unambiguously determine, and then forecast, the claims cost for a particular class based on historical data and trends. Many of the classes have only a relatively small number of registered vehicles and a correspondingly relatively small number of claims made, even over a five to ten year period. Added to this is the complication that future care costs and many common law costs are large and sporadic and may not be settled until many years after the accident, and so contain a significant degree of estimation for many years. Thus, any calculation based on recent claims expense will be a 'best' estimate using all available data but potentially subject to large variations from year to year.

To assist in assessing the relevance of recent claims experience, the Regulator also takes into account the premium relativities in other jurisdictions. By considering the practice and experience of other jurisdictions combined with that of Tasmania, a higher degree of confidence in the relativities can be obtained.

This Chapter examines the appropriateness of the current MAIB classification of vehicles and the premium relativities relating to each class.

6.2 Impact of the previous Investigation

6.2.1 Changes in vehicle classifications

At the conclusion of the 2009 Investigation, it was recommended that the MAIB should consider the costs and benefits of maintaining four separate classes of motorcycle categories, with a view to establishing whether fewer classes might be appropriate. The MAIB considered that it was useful to monitor the three largest motorcycle classes separately because:

- the consistency of higher relativities for three separate classes of motorcycles adds to the case for higher relativities for motorcycles;
- it will enable ongoing analysis of whether relativity does increase with the size of the motorcycle or whether this has just been due to random fluctuations; and

- the costs savings from combining the three largest motorcycle classes are likely to be minimal.⁹⁰

On that basis, the MAIB considers that maintaining four separate classes of motorcycles, for monitoring and analysis purposes is warranted.

The MAIB is not proposing to change any vehicle classifications in 2013.

6.2.2 Changes in relativities and premiums

In 2009 the Commission proposed amending the relativities for five classes of vehicles as shown below in Table 6.1.

Table 6.1: Present relativities and 2009 Final Report recommendations

	Class of Vehicle	Present relativity	Recommended relativity (2009 GPOC report)
1	Motor Car	1.00	
2	Light Goods Vehicle	1.00	
3	Heavy Goods Vehicle	1.58	
4	Medium Motorcycle	1.28	1.40
5	Large Motorcycle	1.28	1.40
6	Taxi and Chauffeured Hire Car	3.09	3.54
7	Large Passenger Vehicle	2.58	
8	Hire and Drive Vehicle	2.58	
9	Caravan, Horse Float, Plant and Machinery (non self-propelled)	0.13	
10	Heavy Trailer	0.29	
11	Mobile Crane	1.06	
12	Restricted Registration Vehicle	0.14	
13	Plant & Machinery (Self-Propelled)	0.38	
14	Motor Trade Plate	1.06	
15	Farm Tractor	0.38	
16	Medium Passenger Vehicle	1.58	
17	Small Motorcycle	0.50	
18	Off Road & Recreational Vehicles	0.59	1.00
19	Short Term Permits	0.10	
20	Medium Large Motorcycle	1.28	1.40
21	Vintage Motor Vehicle or Street Rod	0.10	
22	Special Interest Vehicle	0.32	

Source: GPOC Report 2009.

⁹⁰ See MAIB submission p.88.

To implement the proposed relativities, the Commission recommended a phased in approach, with gradual growth in the premium relativities of the five classes until the levels match those proposed.

The recommended premium increases were also made at the height of the GFC, when the solvency level of the MAIB was relatively low. The Commission recommended “if solvency does return to (or exceeds) target levels during the next regulator period, the Commission recommends that the MAIB should consider not increasing premiums to the maximums proposed”.⁹¹

The solvency level of the MAIB did, in fact, return to previous levels, such that only the initial premium increase (and premium relativity adjustment) was implemented by the MAIB on 1 December 2009. Hence, the MAIB did not implement all of the recommended relativity changes and thus premium relativities and premiums have remained unchanged since 2009.

6.3 Impact of changes in transportation legislation

The Terms of Reference has requested that the Regulator consider the “impact of recent amendments to the following acts on vehicle classification:

- a. *Passenger Transport Services Act 2011;*
- b. *Taxi and Luxury Hire Car Industries Amendment Act 2011; and*
- c. *Passenger Transport and Related Legislation (Consequential Amendments) Act 2011.”*

The Regulator understands that these amendments resulted from both a Review of the *Passenger Transport Act 1997* and the Safe Community Transport Review. The Regulator understands that the previous Passenger Transport Act was identified as being unclear in its intent and overly complex, thereby creating considerable difficulties in its administration. Given the extent of the issues, it was determined that the most effective course of action was to replace the Passenger Transport Act with a new Act.⁹²

Changes have been made with respect to the following principles:

- the specific regulation of passenger transport should generally apply to commercial rather than non-commercial operations;
- the regulation should focus on services available to the wider public rather than private arrangements; and

⁹¹ See GPOC (2009) “2009 Investigation into the pricing policies of the MAIB – Final Report”, p.116.

⁹² See The Hon Nick McKim MP, Passenger Transport Services Bill 2011. Second Reading Speech, p.4.

- there is a greater justification for regulating transport delivered using larger passenger vehicles.⁹³

The Regulator understands that the fundamental change in the legislation that impacts the MAIB is the classification of vehicles used most commonly as community transport. Previously, many community based transport operators were effectively classified as commercial operators even though they only charged a “notional” fee to passengers. Changes in the legislation ensures that community groups with small passenger vehicles (i.e. those with fewer than ten seats) will not be treated as operating passenger transport services and thus will be subject to the Class 1 MAIB premium.

Based on these legislative changes, the MAIB has indicated in its submission that it intends to classify community vehicles as follows:

- community vehicles with less than 10 seats will take the Class 1 classification. (Courtesy vehicles used by car dealers and the like will be treated similarly); and
- ‘manned’ passenger vehicles with 10 seats or more, including community vehicles, will be categorised as Class 16 (for vehicles with no more than 16 seats) or Class 7 if they have 17 seats or more. There is provision for vehicles used solely for private purposes to be excluded from the provisions of the Passenger Transport Services Act.

The MAIB’s submission notes that between 120 and 150 vehicles will be transferred from Class 16 to the Class 1 and a small number of vehicles will be transferred from Class 1 to Class 16. The impact on premium relativities is expected to be immaterial.

The impact of bringing restricted hire vehicles within the jurisdiction of the *Taxi and Luxury Hire Car Industries Act 2011* is considered in Section 6.7.5.

6.4 MAIB vehicle classification differences with other areas of state regulation

The Terms of Reference also requested the Regulator to consider “...the correlation of MAIB classification of vehicles and the premium order to other areas managed by state regulation.”

The Regulator understands that this requirement relates specifically to a number of concerns raised by DIER about the way MAIB classifies vehicles. In particular these include the treatment of:

- commercial and non-commercial buses;
- luxury hire cars and restricted hire vehicles; and

⁹³ Ibid, p.5.

- the uniformity of charging for all large passenger vehicles (Class 17).

These issues are considered within the relevant sections of this chapter.

6.5 Basis for cost allocation

6.5.1 Fault versus vulnerability

Premium relativities are intended to reflect the risk attached to providing insurance for each class of vehicle insured. The current MAIB premium schedule contains 22 separate classes (with pensioner discounts available for both Class 1 Motor Car and Class 2 Light Goods Vehicle).

Motor accidents may involve one or more vehicles, with varying degrees of liability. The issue of allocation of costs between vehicles involved in an accident is a fundamental issue when determining reasonable premium relativities. Possible cost allocation methods include:

- costs allocated on the basis of the vehicle in which the injured claimant was travelling (also referred to as a 'vulnerability' basis of allocation);
- costs allocated on the basis of fault; or
- costs shared equally between the vehicles involved (involvement).

Alternatively, a mix of the allocation methods can be used. The advantages and disadvantages of the various approaches are discussed in Appendix C to the MAIB's Submission. In summary, the merits of each method are:

- **Fault** – where several vehicles are at fault, the cost would be allocated according to the levels of responsibility. The main advantage of this methodology is that the cost of compensation is passed on to those parties who are actually causing (or largely responsible) for the accidents. However, this methodology relies on a level of judgement to determine the fault of the parties involved in the accident and can be criticised as being inconsistent with the philosophy of a no-fault scheme;
- **Vulnerability** (the methodology used by the MAIB until 1 December 2005) – costs are allocated to the vehicle in which the injured person was travelling. A consequence of this system is that vehicles that bear a higher risk of vulnerability, but not necessarily fault, bear a greater proportion of the claims cost. The MAIB notes that this methodology may be considered inequitable because, for example, occupants of larger vehicles such as prime movers may be relatively unharmed in an accident where smaller cars or motorcycles are also involved. Thus, irrespective of whether the larger vehicle was responsible for the accident, the cost would be allocated to the class of the smaller vehicle. However, it can also be argued that as the lower protection in the smaller cars or motorcycles may be a contributing factor to the size of the claims, the drivers or riders of these vehicles should share some of the costs because they expose themselves to higher risk; and

- **Involvement** – where the costs are shared equally between all vehicles involved. The advantage of this methodology is that ‘fault-based’ information and judgement is not required. This method of cost allocation is most consistent with the philosophy behind ‘no-fault’ schemes where benefits are provided irrespective of fault. However, as this method gives no consideration to fault it can be argued that poor or negligent driver behaviour is ignored, potentially resulting in an unfair degree of cross-subsidisation between vehicle classifications.

The MAIB currently allocates claims costs to vehicle classes on the basis of ‘fault’. Prior to the 2005 review of premium relativities by MAIB’s consulting actuary, claims costs were allocated on the basis of ‘vulnerability’. This was partly due to limitations in data and information systems which prevented the MAIB from allocating costs on any other bases.

In September 2012, the MAIB’s consulting actuary undertook its periodic review of premium relativities comparing the outcomes using fault as well as vulnerability as a basis. Due to the large size and low frequency of future care claims, the actuary again determined that the most equitable way to allocate future care costs was by spreading these claims costs over all vehicle classes. The basis for allocating future care costs across all vehicle classes was in proportion to the non-future care claims costs.

This gave rise to four bases for evaluating the cost relativities:

- on a fault basis;
- on a fault basis with future care costs spread over all classes;
- on a vulnerability basis; and
- on a vulnerability basis with future care costs spread over all classes.

The outcome of the MAIB’s consulting actuary’s review is given in Table 6.2 which compares the last four years’ claims experience based on the four methodologies listed above along with a comparison with present premium relativities.

Table 6.2: Claims experience: 2008-09 to 2011-12

	Class of vehicle	Present relativity	Basis of claims experience ^{Note 1}			
			Vulnerability	Fault	Vulnerability with future care costs spread	Fault with future care costs spread
1	Motor Car	1.00	1.00	1.00	1.00	1.00
2	Light Goods Vehicle	1.00	0.71	0.72	0.87	0.81
3	Heavy Goods Vehicle	1.58	0.85	1.10	1.45	1.88
4	Medium Motorcycle	1.28	3.04	1.22	5.21	2.09
5	Large Motorcycle	1.28	3.14	1.97	4.28	2.44
6	Taxi and Chauffeured Hire Car	3.09	4.40	3.87	7.52	6.62
7	Large Passenger Vehicle	2.58	12.89 ^{Note 3}	4.80	2.14	2.40
8	Hire and Drive Vehicle	2.58	1.45	1.52	2.49	2.60
9	Caravan, Horse Float, Plant and Machinery (non self-propelled)	0.13	0.00	0.02	0.01	0.03
10	Heavy Trailer	0.29	0.01	0.03	0.02	0.05
11	Mobile Crane	1.06	-	0.01	-	0.02
12	Restricted Registration Vehicle	0.14	0.14	0.15	0.24	0.26
13	Plant & Machinery (Self-Propelled)	0.38	0.17	0.12	0.30	0.20
14	Motor Trade Plate ^{Note 2}	1.06	-	-	-	-
15	Farm Tractor	0.38	0.17	0.11	0.29	0.20
16	Medium Passenger Vehicle	1.58	0.05	0.36	0.09	0.62
17	Small Motorcycle	0.50	0.66	0.32	1.14	0.54
18	Off Road & Recreational Vehicles	0.59	2.10	1.82	3.59	3.11
19	Short Term Permits ^{Note 2}	0.10	-	-	-	-
20	Medium Large Motorcycle	1.28	2.31	1.44	3.96	2.47
21	Vintage Motor Vehicle or Street Rod ^{Note 2}	0.10	-	-	-	-
22	Special Interest Vehicle	0.32	0.21	0.18	0.36	0.31

Source: 2012 Premium Relativities Report (various tables) and update March 2013, Taylor Fry.

Notes: 1. Ratio of average claims cost per vehicle over the four years to 2011-12 relative to Class 1.
2. There have not been any claims made relating to Class 14, 19 and 21 vehicles in the past four years.
3. This number is very large due to a future claim that was allocated to large passenger vehicles on a vulnerability basis. The number reduces substantially when future care claims are spread evenly across all categories. This is the reason why the MAIB's actuary adopts the future care method to avoid outlier impacts.

6.5.1.1 *How costs are allocated*

When fault is used to allocate accident claims costs (whether resulting in single or multiple claims) the costs are allocated to the class of the vehicle(s) 'at fault'. Thus, if a car with four passengers and a motorcycle are involved in a crash resulting in

five claims and the car was at fault then the costs for all five claims would be allocated to Class 1. If the motorcycle was at fault, all five claims would be allocated to the relevant motorcycle class. In some instances, both vehicles may have contributed to the accident. In these instances, fault is apportioned between the vehicles thereby spreading the claims costs across both vehicle classes. By comparison, when vulnerability is used as a basis for allocating accident costs, the costs are allocated to the class of vehicle(s) in which the injured person was travelling.

6.5.1.2 MAIB proposal

Table 6.3 shows the claims experience over the past four years, credibility weighting factors and the MAIB's proposed relativity for each class of vehicle.

Table 6.3: MAIB proposed premium relativities

	Class of vehicle	Present relativity	Claim experience relativity Note 1	Credibility factor Note 2	Credibility weighted premium relativity – current Note 3	Credibility weighted premium relativity – long term Note 4	Suggested relativity
1	Motor Car	1.00	1.00	1.00	1.00	1.00	1.00
2	Light Goods Vehicle	1.00	0.77	1.00	0.77	0.77	1.00
3	Heavy Goods Vehicle	1.58	1.49	0.47	1.54	1.49	1.58
4	Medium Motorcycle	1.28	1.66	0.60	1.51	2.13	1.50
5	Large Motorcycle	1.28	2.21	0.80	2.02	2.21	1.50
6	Taxi and Chauffeured Hire Car	3.09	5.25	0.31	3.76	4.07	3.5
7	Large Passenger Vehicle	2.58	3.60	0.30	2.89	2.75	2.58
8	Hire and Drive Vehicle	2.58	2.06	0.52	2.31	2.31	2.58
9	Caravan, Horse Float, Plant and Machinery (non self-propelled)	0.13	0.03	0.09	0.12	0.12	0.13
10	Heavy Trailer	0.29	0.04	0.08	0.27	0.26	0.29
11	Mobile Crane	1.06	0.02	0.04	1.02	1.02	1.06
12	Restricted Registration Vehicle	0.14	0.21	0.14	0.15	0.13	0.14
13	Plant & Machinery (Self-Propelled)	0.38	0.16	0.07	0.36	0.37	0.38
14	Motor Trade Plate Note 5	1.06	0.00	0.00	1.06	1.03	1.06

	Class of vehicle	Present relativity	Claim experience relativity <small>Note 1</small>	Credibility factor <small>Note 2</small>	Credibility weighted premium relativity – current <small>Note 3</small>	Credibility weighted premium relativity – long term <small>Note 4</small>	Suggested relativity
15	Farm Tractor	0.38	0.16	0.12	0.35	0.34	0.38
16	Medium Passenger Vehicle	1.58	0.49	0.11	1.46	1.33	1.35
17	Small Motorcycle	0.50	0.43	0.34	0.48	0.58	0.50
18	Off Road & Recreational Vehicles	0.59	2.47	0.71	1.92	2.12	0.75
19	Short Term Permits <small>Note 5</small>	0.10	0.00	0.00	0.10	0.10	0.10
20	Medium Large Motorcycle	1.28	1.96	0.64	1.71	1.71	1.50
21	Vintage Motor Vehicle or Street Rod <small>Note 5</small>	0.10	0.00	0.00	0.10	0.09	0.10
22	Special Interest Vehicle	0.32	0.25	0.12	0.31	0.31	0.32

Source: MAIB submission and updated 2013 Premium Relativities Report, Taylor Fry.

- Notes:
1. Average of minimum and maximum relativities based on fault and fault with future care costs spread over all classes.
 2. This factor discounts recent claims experience due to the likely presence of outliers since around 85 per cent of registrations and 75 per cent of claims are from Class 1 and 2 vehicles.
 3. This is calculated as claims experience relativity multiplied by the credibility factor plus present relativity multiplied by one minus the credibility factor.
 4. This is the credibility weighted premium relativity calculated using the credibility weighted premium from the previous Taylor Fry reviews.
 5. There have not been any claims made relating to Class 14, 19 and 21 vehicles in the past four years.

Consistent with the previous relativities review, the MAIB's consulting actuary determined the claims cost relativities over the last four years based on an average of allocating all costs on a fault basis (minimum) and allocating non-future care costs based on fault, and spreading future care cost over all classes (maximum). The average claims experience relativity was then modified based on the credibility of the recent claims experience.⁹⁴ This means, for example, that if there were fewer claims made in the four years under review then the credibility of the experience history was taken as low and other factors including long-term expectations are also taken into account.

The Regulator supports the continued use of fault as the preferred cost allocation method. A fault-based system as opposed to a vulnerability-based system generally leads to lower costs for the more vulnerable classes, such as motorcycles, and

⁹⁴ Credibility-weighted relativities have been derived by the actuary in recognition that cost estimates may be less reliable for those classes which have a small claims history whether from small numbers of claims or from the class not having many registered vehicles.

higher costs for heavy vehicles in which the occupants are less likely to be injured in an accident. Unlike cost allocations based on vulnerability and involvement, the fault-based methodology recognises poor or negligent driver behaviour, and is therefore, arguably, more equitable and results in a lower degree of cross-subsidisation between vehicle classifications.

Based on recent claims experience, the MAIB has proposed changing the premium relativities for the following vehicle classes:

- Motorcycle (Classes 4, 5, 17 and 20);
- Taxi and Chauffeured Hire Car (Class 6);
- Medium Passenger Vehicles (Class 16); and
- Off Road and Recreational Vehicles (Class 18).

These proposed changes are considered in detail in Section 6.7 along with premium relativities for other classes of vehicles.

6.6 Other factors in determining relativities

In assessing premium relativities, the Regulator is of the view that premiums should be set on a commercial basis and the premiums should reflect the risk associated with a particular class of vehicle. Other factors in assessing the benefits and costs of changing premium relativities include willingness to pay and the higher risk of avoidance where premiums are high relative to vehicle usage and / or the risk of detection of non-payment. In setting the maximum premiums for each class, the Regulator expects that the MAIB will exercise its commercial judgment as to the most appropriate level so as to maximise compliance and revenue collection within the limits set by the Regulator.

6.7 Regulator's assessment

6.7.1 Cross-subsidies between vehicle classes

As noted above, the Regulator is required to consider whether any cross-subsidies exist within the current pricing structure (especially in relation to different vehicle classes and different risk types) and if they exist, the benefits and costs of retaining these cross-subsidies. The MAIB scheme, being a no-fault scheme is based on a community rating for a class of vehicle, not driver qualities. As such there will always be some inherent cross-subsidies.

In assessing the appropriate premium relativities for the MAIB, the Regulator therefore looks to the actual experience relativities, the credibility-weighted relativities in the actuarial review and, where appropriate, the premium relativities in other jurisdictions to make an assessment as to the size of any likely cross-subsidy between classes.

In general terms, the Regulator will consider changing premium relativities when the benefits of reducing the cross-subsidy outweigh any likely costs of implementing the change. The existence of cross-subsidies between premium classes may impose unfair costs on those motorists whose premiums are higher than they otherwise should be. The Regulator will therefore recommend changes in premium relativities when the claims experience, and hence claims cost, is not fairly reflected in the premium collected for a given class relative to other classes of vehicles. An equitable and fair share of scheme costs spread across classes of vehicles based on claims experience benefits all motorists through minimal cross-subsidisation and relatively stable premium increases.

With these principles in mind, the Regulator's proposals in relation to premium relativities, including the premium relativities for those classes of vehicle where the current premium relativity appears not to be a fair representation of the underlying claims costs, are considered in the following sections.

6.7.2 Class 2 – Light Goods Vehicle

At present the premium relativity applied to Class 2 Light Goods Vehicle is 1.00, i.e. there is no difference in the premium compared to that applied to Class 1 Motor Car. The vulnerability-based claims experience has a relativity of 0.71. If future care costs are spread over all classes the relativity increases to 0.87. When costs are allocated on a fault basis then the relativity for Class 2 is 0.72, which rises to 0.81 when future care costs are spread over all classes.

There have been 1 835 claims made against Class 2 vehicles over the last four years and the credibility factor given by the actuary is 1.00, suggesting that the claims experience should be taken as being a quite accurate prediction of future claims experience, i.e. that this class's own experience is largely sufficient to be relied upon. The credibility-weighted premium given by the consulting actuary is 0.77. However, the consulting actuary recommends the relativity be left at 1.00. This is in view of the practical difficulties in administration if this class had a lower premium.

The Regulator considers the current relativity of 1.00 for Class 2 is appropriate and consistent with the relativities assigned in other jurisdictions⁹⁵ for this class of vehicle, with only Western Australia having a relativity lower than 1.00.

6.7.3 Class 3 – Heavy Goods Vehicle

The relativity for Class 3 vehicles on a vulnerability basis is 0.85 and the present premium relativity is 1.58. When fault is used as the basis of cost allocation, the relativity for Class 3 vehicles is 1.10 and if future care costs are spread over all classes the relativity rises to 1.88. This is because injuries sustained in heavy vehicles are usually less serious, so when future care costs are spread over all classes in proportion to non-future care claims, less vulnerable classes will be

⁹⁵ Refer to Appendix E for comparable relativities across other states and territories.

allocated a higher proportion of the more serious injuries. The actuary has determined the claim experience relativity as 1.49 increasing to 1.54 based on the credibility-weighted premium, based on 0.47 credibility factor. This result is 1.49 using long term data. Comparison with mainland schemes shows that relativities vary widely from around 0.92 to 6.42.

The Regulator considers the current premium relativity for Class 3 vehicles is appropriate.

6.7.4 Classes 4, 5, 17 and 20 - motorcycles

As mentioned in section 6.5.1.2, the MAIB proposes increasing the relativity for the Classes 4, 5 and 20 from the current level of 1.28 to 1.50. The Regulator recommended changing Class 4, 5 and 17 motorcycle relativities to 1.40 in both the 2009 Investigation and the 2006 Investigation however the relativities were only increased to 1.28 due to the MAIB's strong financial position and the limited need for an overall premium increase. The Regulator understands that the MAIB is contemplating implementing these recommendations during the upcoming pricing period for medium and large motorcycles (Classes 4, 5 and 20). This would represent an increase in comparative charges of 17 per cent if implemented.

The MAIB also note that their proposal to increase the premium relativity for classes 4, 5 and 20 is lower than that recommended by its consulting actuary in its 2012 premium relativities report. The MAIB's submission notes that this is because of "the commercial risk that if too high an increase is levied, an increasing number of motorcyclist who use their machines in the summer months may opt to register for six months only in each 12 month period."⁹⁶

Motorcycle relativities and recent claims experience are considered below.

6.7.4.1 Relativities and claims cost

Table 6.4 summarises the claims relativity data shown in Table 6.2 and Table 6.3 for Class 4 Medium Motorcycle, Class 5 Large Motorcycle, Class 20 Medium large Motorcycle and Class 17 Small Motorcycles. As shown in Table 6.4, the relativity for the claims experience is much higher than the present relativity, including the weighted average for larger motorcycles.

⁹⁶ MAIB Submission, p.88.

Table 6.4: Relativities for medium to large motorcycles - classes 4, 5 and 20.

Class description	Current relativity	Vulnerability based claims relativity Future Care spread	Fault based claims relativity Future Care spread	Claims experience relativity <small>Note 1</small>	Credibility weighted premium relativity current	Credibility weighted premium relativity long term	Proposed relativity
Class 4	1.28	5.21	2.09	1.66	1.51	2.13	1.50
Class 5	1.28	4.28	2.44	2.21	2.02	2.21	1.50
Class 20	1.28	3.96	2.47	1.96	1.71	1.71	1.50
Weighted average <small>Note 2</small>	1.28	4.34	2.39	2.06	1.86	2.07	1.50
Class 17	0.50	1.14	0.54	0.43	0.48	0.58	0.50

Source: Taylor Fry Premium Relativities Report, updated March 2013 and MAIB Submission.

Notes: 1. Average of minimum of maximum relativities based on fault and fault with future care costs spread over all classes.

2. All averages have been weighted based on the number of motorcycles registered at 30 June 2012.

The Regulator considers that relativities for motorcycles should reflect the costs of claims. The claims costs for motorcycle accidents tend to be more expensive for motorcyclist generally due to the less protection offered by a motorcycle compared to a car. However, the Regulator also notes that under a no-fault scheme, claims costs will always be higher. This is because the cost of claims reflects not only those accidents involving another vehicle where the motorcycle is at fault but also for accidents involving only a motorcycle. These latter accidents are not covered by a scheme that is a fault-based common law scheme. Given this it is not surprising motorcyclists face higher premiums to cover accidents under a no-fault scheme. However, the added costs do bring many benefits, not least of which is that a motorcyclist involved in a single vehicle accident (about 70 per cent of all motorcycle accidents, rising to approximately 84 per cent when allocated on a fault basis) receives full scheduled benefits (no-fault) cover, something that does not occur in most mainland jurisdictions.

The Regulator understands that there can be a level of uncertainty and volatility in claims experience and, until claims mature, there is a significant reliance on estimates of the cost of claims. However, despite these factors, after taking account of the relativities discussed above, the Regulator is satisfied that there remains a significant cross-subsidy inherent in the current medium and large motorcycle premiums. The Regulator again considers that an increase in premium relativities from 1.28 to 1.50 (an increase of 17 per cent) is appropriate after taking into account the following factors:

- the cost of premiums in Tasmania compared to the cost of premiums in other States, taking account of the fact that Tasmanian benefits are, along with Victoria, the most generous in Australia;
- the possibility that there may be other factors, such as the condition of roads, which contribute to motorcycle accidents; and

- the potential for material increases in premiums to lead to a significant increase in the numbers of unregistered motorcycles and therefore motorcycles without MAIB cover.

As discussed above, the Commission has previously recommended a gradual phasing in of premium relativity increases to minimise the impact of upward price shocks on consumers. However, given that the MAIB has only needed to increase premiums once over the past six years, this has not occurred. The MAIB considers that it may be timely for a one-off increase in motorcycle relativities, rather than a gradual phasing in over the four year period. The Regulator maintains its previous view, and recommends that the MAIB consider phasing in the premium relativity increase for motor cycles even if it does not increase all other premiums over the pricing period. This would equate to an increase of 4.04 per cent per annum independent of any other increase. The Regulator notes that its recommendation to reduce the average premium now means that premiums are more likely to increase in the future from this lower base which would provide a greater opportunity for the MAIB to adjust premium relativities.

Although Tasmanian motorcycle premiums continue to remain relatively high compared to other jurisdictions, as discussed in the previous Investigation, the reclassification of motor cycles into their current classes has assisted in making Tasmanian motorcycle premiums more competitive. Furthermore, as also noted above, premium relativities will inevitably differ between no-fault and common law schemes due to the exclusion of single vehicle and accidents where the motorcyclist is at fault. Thus, a common law CTP scheme is not required to make as many payments when a motorcycle is involved in an accident as compared to a no-fault scheme.

The Regulator noted in its Draft Report that it appreciates that this is the same conclusion that has been reached in previous investigations and that some stakeholders do not agree with that view. However, the Regulator considered that the evidence it has viewed continues to support this decision, based on a fault allocation basis, and has not seen any new evidence to suggest that it should change its view. However, the Regulator invited stakeholders to provide any new information they may consider to be relevant prior to the Regulator making its final decision.

6.7.4.2 Submissions

The Regulator received a submission from the Tasmanian Motorcycle Council (TMC) that opposed this draft recommendation.

With respect to premiums, the TMC note that:

- there has been a substantial increase in the number of motorcycle riders and registered motorcycles in Tasmania in recent years, between five and seven per cent annually;
- at the same time, the rate of serious casualty motorcycle crashes has decreased, although it's noted that the cost of long term injuries remains high;

- the current method of establishing premiums effectively categorises motorcycles above 125cc as one group, and places the burden for high-cost injuries to this vulnerable road user category on the relatively small number of premium payers (small, compared to the total number of premium payers in the scheme);
- its considers this classification to be a flawed system and questions why other categories are not created such as for males between 17 and 25 where a cross-subsidy is likely to exist and also for bicycles and pedestrians;
- increasing motorcycle premiums above class 1 motor vehicle are clearly a measure aimed at discouraging motorcycling by making it a more costly transport option;
- the TMC considers that motorcyclists unfairly contribute a greater proportion to the MAIB's bottom line, and in turn the dividend paid to government; and
- the principle of a "no fault" scheme should be to not disadvantage road users because of their particular circumstances in relation to crash injury, yet for motorcycle riders this is turned and used in the opposite direction.

The TMC also believes that more could be done to encourage riders to undertake the road skills training. The \$20 000 allocated to this by the MAIB for the next year amounts to subsidising 133 attendees. The TMC is disappointed that the low take-up rate for this training has continued, and believes that far greater participation could be achieved with increased promotion and marketing.

With respect to vehicle classification, the TMC suggests that:

- the definition of class 4, medium motorcycles, should be amended from '126cc to 250cc' to instead cover machines above 125cc that are registered under LAMS because machines are categorised in this manner through the registration system;
- class 20, medium large motorcycles, be altered to cover non-LAMS motorcycles up to 890cc with machines 890cc and above would them be categorised as class 5, large; and
- notwithstanding the above, it remains the TMC's view that the premium relativity for motorcycles above 125cc should be 1.00.

The TMC also noted that irrespective of the resulting premiums for the next four year period, it would be far more useful for future analysis to measure claims on the categories noted above rather, than on the class definitions that exist at present.

6.7.4.3 Regulator's conclusion

With respect to premiums the Regulator notes that the arguments put forward by the TMC would appear to be inconsistent with the available evidence.

The Regulator considers that the TMC's interpretation of the current scheme with its statement that "the principle of a 'no fault' scheme should be to not disadvantage

road users because of their particular circumstances in relation to crash injury, yet for motorcycle riders this is turned and used in the opposite direction” is inconsistent with the workings of the actual scheme. A no-fault scheme means that all parties in an accident are entitled to a form of compensation. However, the manner in which the scheme is funded to provide this compensation is a different question and an important distinction.

As discussed above, the MAIB scheme is funded through premiums on a fault basis. That is, vehicles that have been deemed to *cause* more accidents are allocated a relatively higher proportion of costs of the MAIB to fund. In this sense, the system is an efficient and equitable system because prices reflect the added cost to the system caused by vehicles. The TMC’s comment suggests that the system is funded on a vulnerability basis i.e. motorists that generate the most claims through injury pay the highest premiums. The MAIB charged on this basis until 1 December 2005, however since that time has charged to a fault allocation basis.

This pricing policy is not designed to discourage motorcyclists by making motorcycling a more costly option. The Regulator appreciates that there are many reasons why individuals may choose to ride motorcycles, including cheaper fuel costs and recreational purposes. The pricing policy is based purely on the historical fault based risk experience of different vehicle classes. Consideration of less costly transport options, including environmentally friendly options, is a matter to be dealt with by individuals themselves and other policy instruments available to government.

Contrary to the TMC’s submission the evidence suggests that motorcycles are involved in more accidents in which they are deemed to have been at fault, relative to their contribution to the scheme. Specifically, Table 6.4 shows that the claims experience relativity and the credibility weighted premium relativity for classes 4, 5 and 20 are all much higher than the current premiums relativity for these categories. This evidence suggests a clear cross subsidy for premiums in these classes and under recover of costs including contribution to dividends.

With respect to charging premiums on an individual basis and vehicle classification on a LAMS basis, this is addressed in detail in Section 7.3. However, in summary, whilst there may be other methods of charging premiums, the Regulator considers that the current system is adequate and appropriately balances the objectives of simplicity, efficiency and equity.

Given this, the Regulator does not consider that sufficient evidence has been provided to warrant changing its draft recommendations.

6.7.5 Class 6 - Taxi and Chauffeured Hire Car

The claims experience relativity for the past four years for Class 6 vehicles is 5.25. This compares to the present premium relativity of 3.09. Whilst the claims experience is lower under a fault allocation methodology, it is still much higher than the present premium relativity. This seems intuitively reasonable as the higher claims experience results from these vehicles being on the road more than other vehicles.

The actuary assessed the credibility-weighted relativity for the past four years to be 3.76 and 4.07 using long term experience data. The MAIB's proposes to increase the relativity to 3.50 for Class 6 vehicles, which accords with the Commission's 2009 recommendations on this issue.

As highlighted in Appendix E, premium relativities in other states range from 2.81 in the Northern Territory to 19.21 in Queensland. In states with fault-based schemes, the relativity tends to be around 12 whilst in the no-fault schemes the relativities are lower.

Previous investigations reviewed the issue of taxi drivers being covered by workers' compensation and the potential for drivers to be double insured. However, the MAIB can still be exposed to common law claims and thus is still exposed to claims from drivers. Furthermore, passengers in taxis require cover and, due to the nature of the service provided by taxis, the occupancy rate is higher and thus the chance of multiple claims is increased.

The Regulator considers that, even though claims experience has improved, the present relativity is not sufficient to meet claims costs and thus the relativity should be increased from 3.09 to 3.50. This would represent an increase in comparative charges of 13.3 per cent if implemented and accords with the consulting actuary's assessment and the MAIB's submission. In the Regulator's opinion this is sufficient to reduce the cross-subsidy to a reasonable level over the next four years. This would equate to an increase of 3.16 per cent per annum independent of any other increase.

DIER has expressed concern that luxury hire car drivers may be paying higher premiums for the risk associated with operating a taxi service. Specifically, DIER considers that taxis operate for much longer time periods compared to luxury hire cars and may cause relatively more accidents and, therefore, more costs for the MAIB.

To test the validity of this claim, the Regulator sought data on the number of claims, the value of claims and the total number of registered vehicles each broken down into taxis and luxury hire cars. Furthermore, the Regulator requested that claims be allocated on a fault basis. The Regulator's aim was to measure the historical pattern of risk to the MAIB in terms of the number of accidents and the cost of those accidents for each vehicle type. Unfortunately, such data was not available to undertake the analysis.

Whilst conceptually, the Regulator can understand that taxi services may have a higher risk profile compared to luxury car hires, unfortunately insufficient information is available to test the veracity of that particular claim as it relates to Tasmania. Furthermore, the Regulator does understand that in some cases luxury hire cars are used very frequently, particularly in northern Tasmania.

However, the Regulator investigated how luxury hire cars are classified in other jurisdictions in Australia. In most states and territories it appears that luxury hire cars are either classified as a separate category or as a Class 1 motor vehicle which attract a much lower premium than cars. That said, classification with taxis in other

states and territories would appear to have a much larger implication with premiums in many states ranging from \$2 000 to \$8 500 compared to just over \$1 000 in Tasmania.

Table 6.5: Luxury Hire Car - classification by jurisdiction

Jurisdiction	Classification	Current relativity
Tas	Taxis	3.09
NSW	Separate	1
Vic	Class 1	1
QLD	Separate	1.95
WA	Separate	1.06
SA	Separate	1.60

Source: Various state CTP websites.

DIER have expressed a desire to create a new category that bundles luxury hire cars and restricted hire vehicles together in one category. However, creation of this new category would require investigation of the individual risk profiles of those vehicles. However, as noted above, data is currently unavailable for these risk profiles. Furthermore, the Regulator is concerned about creating extra categories, given that Tasmania already has more categories than other forms of state based regulation and other jurisdictions. There is also a cost involved in creating a new category through the collecting and monitoring of data that would add to the overall costs to be recovered from vehicle owners.

In its submission, the MAIB notes that “There is provision under the amended Taxi and Luxury Hire Car Industries Act for general or specific restricted hire vehicle services (Section 84C)”. The Regulator understands that the MAIB considered the impact of this inclusion on how it classifies its vehicles. The MAIB considered in its submission that restricted hire vehicles may be best classified with Class 1 vehicles. However, upon further investigation, DIER informed the MAIB that these vehicles are widely used and best remain classified as a Class 16 vehicle. Given that this decision has been taken there would appear to be less need to consider creating a new category for luxury hire cars.

Given these factors, the Regulator does not consider it prudent to separate luxury hire cars into a new category. Furthermore, the Regulator does not consider that there is sufficient evidence in Tasmania to move luxury hire cars into a different category. That said, the Regulator recommends that the MAIB collect data on the number and value of accidents split between taxis and luxury hire cars for consideration at the next Investigation.

6.7.6 Class 7 – Large Passenger Vehicle

The claims experience relativity for the past four years for Class 7 vehicles is 3.60 with a credibility weighted average premium relativity of 2.89 and 2.75 based on long term data. This compares to the present premium relativity of 2.58. The

relativities for the mainland states and territories range between 2.42 at the lower end in South Australia to 12.00 in NSW.

Whilst the recent claims experience is high, due to the small number of vehicles and high occupancy rates, this class tends to experience a high degree of volatility. For example, claims experience was 1.84 in 2008, 2.21 in 2002 and 1.66 in 2005.

Due to the volatility of claims experience the Regulator does not consider that there is sufficient evidence for adjusting the present relativity.

6.7.6.1 Charging per seat

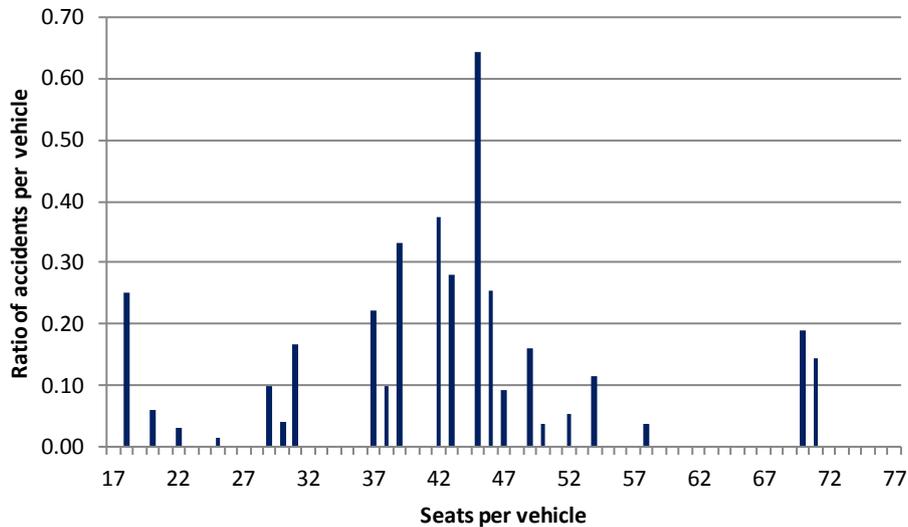
Some states provide a range of relativities that increase with the number of seats.

DIER has expressed concern that this category currently commences once a vehicle is carrying greater than 16 passengers, which does not match any of the seating capacity provisions in any Tasmanian legislation. DIER considers that charging on a per seat basis may be a fairer way of calculating premiums as the operator with a 17 seat vehicle is not paying more for the risk involved with the number of people carried in a 40 seat vehicle.

To test the validity of this claim, the Regulator sought data on the number of claims, the value of claims and the total number of registered vehicles each broken down into the number of seats of per vehicle for Large Passenger Vehicles. Furthermore, this data was further broken down into claims and costs on a fault basis.

Figure 6.1 presents data on the number of accidents per vehicle from 2008 to 2012. Figure 6.1 shows that the highest number of accidents per vehicle occurs for buses with 45 seats at 0.64 accidents per vehicle. Following this, similar size buses (with seats of 42, 39, 43 and 37) have between 0.22 and 0.38 accidents per registered vehicle in their respective vehicles classes. However, Figure 6.1 also shows that a similar number of accidents appear to occur will smaller size buses (18 seats) and larger size buses (70 seats) with 0.25 and 0.19 accidents per registered vehicles respectively. This suggests that based on available data there is not a clear pattern of accidents increasing in line with the increased number of seats on a bus.

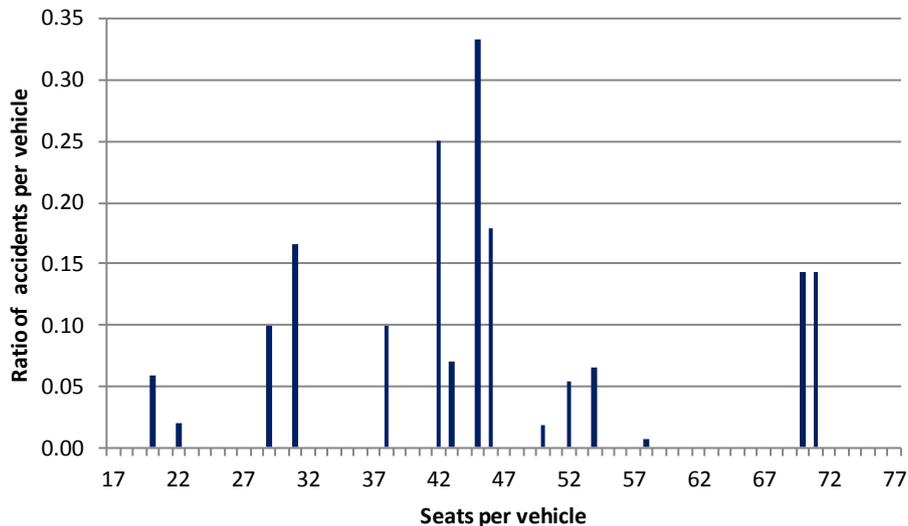
Figure 6.1: Number of accidents per vehicle 2008 to 2012



Source: MAIB data.

Figure 6.2 allocates the data from Figure 6.1 on a fault basis. Similar to Figure 6.1, the majority of accidents per vehicle occur for buses with around 45 seats. However, again the number of accidents on a fault basis does not appear to necessarily increase with the number of seats.

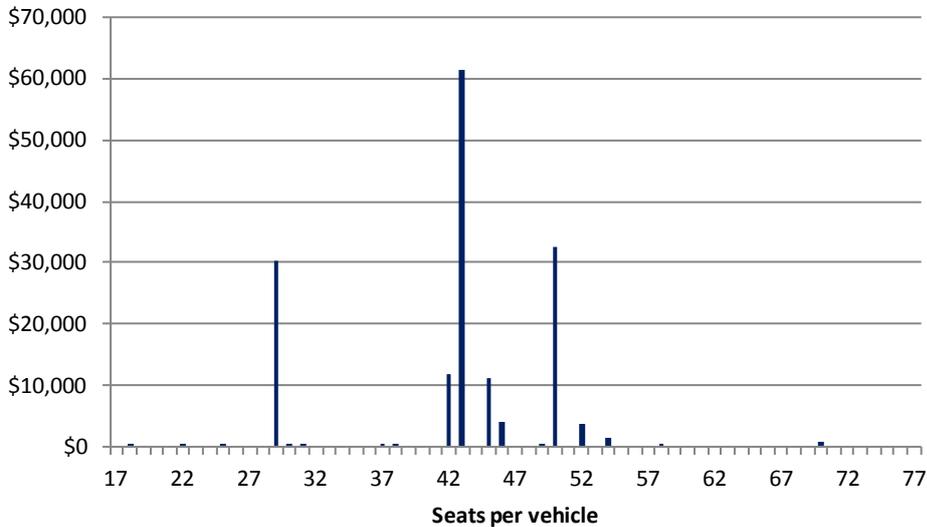
Figure 6.2: Number of accidents per vehicle 2008 to 2012 – fault basis



Source: MAIB data.

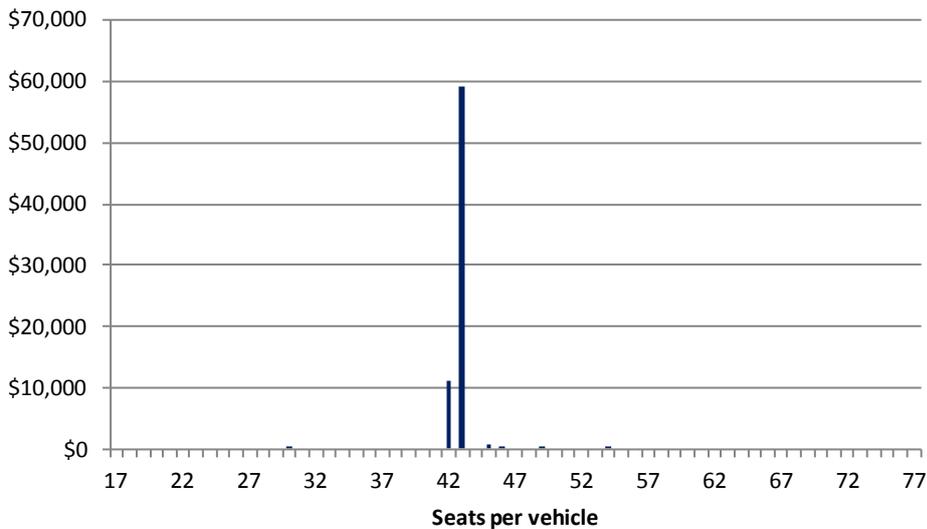
Figures 6.3 and 6.4 provide cost data on the value of claims per vehicle and those allocated on a fault basis per vehicle type. As can be seen there is no clear evidence of an increasing trend in the value of claims per vehicle depending on the number of seats.

Figure 6.3: Value of claims per vehicle 2008 to 2012



Source: MAIB data.

Figure 6.4: Value of claims per vehicle 2008 to 2012 – fault basis



Source: MAIB data.

It should be noted that, given the relatively small Tasmania market, there is limited data available to undertake this analysis. However, given the information that is available (as presented above) there would appear to be insufficient evidence to conclude that the risk to the MAIB, either based on the number of claims or cost, increases with the number of seats. Furthermore, based on the fault based method of determining premiums, there is insufficient evidence to suggest that risk increases with the number of seats within the vehicle.

Given this, the Regulator considers that it is not appropriate to impose MAIB premiums on large passenger vehicles on a per seat basis.

6.7.6.2 *Distinguishing between commercial and non-commercial buses*

DIER has also asked the Regulator to consider the merits of classifying commercial and non-commercial buses differently as is currently undertaken in some other states.

Similar to the above discussion about charging premiums on a per seat basis, the Regulator would ideally like to examine the different risk profiles of commercial and non-commercial buses to consider this issue. This would require data on accident history, claims costs and allocation on a fault basis for both commercial and non-commercial buses. Such data is currently not available.

In the absence of data to analyse risk profiles, classification of buses into commercial and non-commercial categories for premiums would have to be based on social rather than economic grounds. In general, the Regulator considers that such concessions should be delivered in a transparent manner by the Government, rather than via the MAIB through lower premiums. The MAIB already provides discounts for pensioners that drive Class 1 or Class 2 vehicles, and providing further concessions for other vehicles lead to increases in premiums in other categories to maintain the MAIB's target financial viability.

Furthermore, the Regulator understands that one of the objectives of the recent changes to the Passenger Transport legislation was to distinguish between commercial and non-commercial buses and regulate only large commercial buses. In this light, buses with fewer than 10 seats are deemed to be non-commercial vehicles and no longer subject to regulation under the Passenger Transport Services Act. The Regulator understands that buses with between 10 and 12 seats are subject to a lighter form of regulation whilst buses with 13 or more seats are considered large vehicles according to the Passenger Transport Services Act and are subject to more onerous regulation.

Consistent with these changes, the MAIB intends to classify all vehicles with fewer than 10 seats as Class 1 vehicles and all community transport vehicles with between 10 and 12 seats classified as Class 16 medium passenger vehicles as outlined in Section 6.3.

Given the intention of the Passenger Transport Services Act, and the changes proposed by the MAIB, the merits of classifying non-commercial vehicles with greater than nine seats in a different way to that detailed in the Act is unclear. As such, the Regulator does not propose recommending reclassifying community buses with more than nine seats into a concessional category.

6.7.7 **Class 8 – Hire and Drive Vehicle**

The present relativity of hire and drive vehicles of 2.58 is in line with the claims experience relativity of 2.06 and a credibility weighted premium of 2.31 based on current claims experience and 2.31 based on long term experience. The MAIB and its consulting actuary have not recommended changing the relativity for this category and the Regulator sees no reason to adjust the present relativity.

6.7.8 Classes 9 and 10 – Caravan, Horse Float, Plant and Machinery (non self-propelled)

Class 9 covers caravans, horse floats and non self-propelled 'plant and machinery' whilst Class 10 covers trailers weighing more than half a tonne not already covered in Class 9. Additionally, a premium is not charged for trailers weighing less than half a tonne unladen which do not fall under Class 9. This includes small household trailers, boat trailers and the majority of horse floats.

The rationale for applying a premium to a trailer is twofold. The first is that vehicles towing trailers are considered to be more risky than those vehicles not towing a trailer. Secondly, at times trailers may be parked on the side of a road causing a hazard to other drivers (particularly when they are unlit). Given this, risk can be assigned directly as a result of using the trailers. Hence, rather than charging all motor vehicles a slightly higher premium to pay for the risk of trailers, a separate premium is charged to only those that use a trailer.

The recent claims experience relativity for Class 9 is 0.03 and for Class 10 it is 0.04. In the past four years there has only been nine Class 9 claims and six Class 10 claims. This is reasonably consistent with previously reported claims experience for these classes over the period 1991 to 2008.

In previous reviews, the Regulator has highlighted that the lack of claims assigned to Class 9 and 10 vehicles may be misleading, because where a vehicle towing a caravan or other plant and machinery is involved in an accident, it is common for the claim to be assigned to the class of the towing vehicle. The MAIB have since confirmed that the liability is usually only assigned to the trailer where the trailer was the only motor vehicle involved. However, the presence of a trailer is recorded in the incident report.

The MAIB's consulting actuary investigated the extent of any understatement with respect to claims made where a trailer was involved by analysing data for accidents involving a trailer for the last four years. The consulting actuary noted that over the last four years there were 51 incidents where a trailer was involved resulting in 66 claims totalling \$4.8 million. This compared to a total of 15 claims and \$0.4 million allocated to Class 9 and 10 on a fault basis. However, of the \$4.8 million, \$2.2 million was due to an incident involving a prime mover (Class 3) to which 100 per cent of the liability was attributed. Excluding this incident, the remaining incidents represent 0.7 per cent of MAIB's total incurred costs over the past four years compared to premiums collected for Class 9 and 10 representing one per cent of total premiums. Given this, the consulting actuary did not consider the degree of potential understatement to be significant.⁹⁷

The Regulator therefore recommends that relativities for classes 9 and 10 remain unchanged.

⁹⁷ See Taylor Fry Premium Relativities Report 2012, p.13.

6.7.9 Class 16 – Medium Passenger Vehicle

The claims experience relativity for Class 16 vehicles over the past four years is 0.49. This is substantially lower than the present premium relativity of 1.58. However, it represents a continuing trend of favourable experience with even lower relativities reported in 2002, 2005 and 2008. The MAIB's consulting actuary notes that the relativity has only exceeded 1.00 on a fault basis once in the past 10 years.

However the relativity reported for 1991 to 1999 was 4.10. This highlights the volatility in claims experience expected for a class with only a small number of registered vehicles (around 550). Mainland premiums for similar vehicles have relativities that range from 1.00 to 3.54.

The credibility weighted premium relativity is 1.46 for the current period and 1.33 using long term data which is lower than the present premium relativity. The MAIB has proposed lowering the relativity to 1.35 taking into account the favourable trend of claims offset by the potential for considerable costs in the event of an accident involving a medium passenger vehicle.

The Regulator also notes that with the recent changes in the Passenger Transport Services Act, approximately 100 vehicles in net terms, will be transferred from Class 16 to Class 1. This represents approximately a 20 per cent in reduction in the number of vehicles in the Class 16 category. It is unclear at this stage what the impact will be in terms of claims frequency for medium passenger vehicles with the removal of these vehicles. In its submission the MAIB provided some insight into the possible risk characteristics of the vehicles that may be transferred between Class 1 and Class 16 as a result of the changes in the Passenger Transport Services Act:

- community vehicles with less than 10 seats will be transferred to Class 1. Small community vehicles (less than 10 seats) include ordinary sedans that are used to transport the aged or infirm to medical appointments. These vehicles pose a similar risk to private passenger vehicles. They have a wider use but, generally, the risk is contained due to the small number of passengers; and
- manned passenger vehicles with 10 seats or more, including community vehicles, will be categorised as Class 16 vehicles. Community vehicles with 10 seats or more present a significantly higher risk than privately owned vehicles or small community vehicles. They are typically operated by nursing homes, schools or charities and, in all likelihood, have a similar risk profile to small buses used by private operators on airport runs and the like.⁹⁸

This suggests that only a small reduction in the premium relativity of Class 16 is warranted.

⁹⁸ See MAIB Submission, p.93.

The Regulator therefore supports the MAIB's proposed premium relativity for Class 16 vehicles.

6.7.10 Class 18 - Off Road and Recreational Vehicles

The current premium relativity for this class of vehicles is 0.59. As part of the 2006 and 2009 Investigations, the Commission recommended a maximum premium relativity of 1.00. These recommendations reflected a rise in the claims experience to 1.57 for the three years ending 30 June 2005 and 2.01 for the three years ending 30 June 2008 respectively.

Table 6.5 summarises the claims relativity data over the last four years.

Table 6.6: Relativities for Class 18 - 2008-09 to 2011-12

Class description	Present relativity	Vulnerability based claims relativity	Fault based claims relativity	Vulnerability with future care costs spread	Fault with future care costs spread	Proposed relativity
Class 18	0.59	2.10	1.82	3.59	3.11	0.75

Source: Taylor Fry Premium Relativities Report 2012 and MAIB Submission.

Table 6.5 shows that the estimated claims costs have on average been over five times the gross premium collected from this class. Although only shown for illustrative purposes, the estimated claims costs are even higher when allocated on a vulnerability basis.

Since the 2009 Investigation, the number of vehicles in the class has increased to around 1 800 vehicles up from around 1 300 in 2009. The number of claims has risen by about 40 per cent over the past four years. The claims frequency for Class 18 vehicles has risen slightly to 8 per cent (up from 7.8 per cent) and remains the highest of any vehicle class.

The Regulator considers that these vehicles are extremely high risk due to both the nature of their construction and their use. It is apparent from claims experience that the MAIB is not recovering its costs associated with this class.

As the name of the class suggests, these vehicles tend to be used 'off-road'. This makes policing of the registration of these vehicles difficult. If premiums were to be raised too high then many owners may decide not to register these vehicles. However, whilst the driver of an unregistered vehicle is not covered by the MAIB any passengers or pedestrians they injure in an accident are covered by the MAIB. Thus the MAIB remains exposed even when a contribution is not made to the premium pool.

The MAIB is proposing an increase in this relativity to 0.75 which is less than that recommended by its consulting actuary in its 2012 premium relativities report. The MAIB considers that some increase in the premium is warranted, however it is concerned about the potential impact on the number of registrations of increasing premiums by too much. Furthermore, the MAIB notes that the introduction of the National Injury Insurance Scheme (NIIS) will result in coverage of people

catastrophically injured whilst riding these vehicles without any payment in premiums.

Taking these issues into consideration, the Regulator considers that the MAIB's proposal is appropriate. That is, an increase of 27 per cent, is much lower than that suggested by the credibility-weighted relativity of 1.92 based on current data, 2.12 based on long term data, and over three times less than the actual claims experience relativity of 2.47.

Given that the present premium is set at half of the Class 1 premium, the premium should be increased at a rate of 6.18 per cent per annum independent of any other increase over the next four years until it is equal to the premium for Class 1 vehicles. However, the Regulator again notes that, ultimately the cross-subsidy should be removed or at the very least reduced but also recognises that, for commercial reasons, the MAIB may choose a different transition path.

6.7.11 Other classes (11, 12, 13, 14, 15, 19, 21 and 22)

The remaining classes of vehicles tend to have a small number of registrations, a very low claims history (20 or less claims over the last four years) and are already subject to relatively low premiums. Additionally, there is no evidence of a systemic change to claims experience for vehicles in these classes. The Regulator, therefore, sees no reason to change the premium relativities for any of these classes.

6.8 Periodic registrations

Under the Terms of Reference the Regulator is required to consider the loading required on periodic registration premiums to ensure that there is no net impact on the MAIB's revenue.

As noted in section 4.4.2.2, periodic registrations⁹⁹ were introduced for all vehicles from 1 December 2001. As noted by the Commission in previous investigations, the Regulator is of the view that the MAIB should be compensated for any revenue foregone as well as the additional administration costs incurred, principally agency and merchant fees paid to cover the collection costs of the Motor Registry. Investment income is a vital part of the MAIB's business, and the average premium calculated in Chapter 4 is based on the assumption that the MAIB receives the full premium at the commencement of the premium year. Allowing periodic registrations reduces both the amount able to be invested and the duration of that investment. If the MAIB was not permitted to impose a surcharge, there would need to be a compensating increase in the average premium. This would result in annual premium payers cross-subsidising periodic payers.

A surcharge on periodic registrations is therefore required to cover foregone investment income and the cost of collection fees, ensuring that the impact on the

⁹⁹ Half-yearly for all vehicles and quarterly for heavy vehicles.

MAIB is revenue neutral. The surcharge is currently 6.0 per cent for quarterly registrations and 3.0 per cent for half-yearly registrations.

The Regulator has reviewed the consulting actuary's advice as to the appropriate level of surcharge required to compensate the MAIB for foregone investment income. The consulting actuary has calculated the cost of foregone investment income and additional collection costs to be 2.6 per cent of the average premium for half-yearly registrations and 6.2 per cent for quarterly registrations. These figures are less than the 3.0 per cent and the 7.2 per cent reported for the previous Investigation. There appears to be a trend of falling costs, with MAIB proposing a reduction in the surcharge from the 3.5 per cent approved in previous investigations to 3.0 per cent. Whilst it could be argued that the half-yearly charge could be lowered the Regulator considers however that there is little evidence to suggest this trend will continue into the future.

The Regulator is therefore proposing that the current surcharges for periodic registrations, in percentage terms, are appropriate maximum surcharges for the next pricing period.

6.9 Pensioner discounts

6.9.1 Eligibility

The MAIB provides a discount to eligible customers. At present, a 20 per cent discount is provided to private motor vehicles and light goods vehicles registered in the names of pensioners.

Contrary to the situation that exists with a number of other Government businesses that are required to provide discounts to eligible customers, the pensioner discount is not funded by the Government through a community service obligation (CSO).

Until July 2008, the discount was limited by the MAIB Premiums Order to persons in receipt of a pension payable under the Commonwealth's *Social Security Act 1992* or the *Veterans' Entitlement Act 1986*. However, from 1 July 2008, Health Care Card holders also became eligible for a pensioner discount.¹⁰⁰

On 25 August 2008, the MAIB Premiums Order was also amended to limit the discount to one per pensioner, but a pensioner couple is still eligible for the discount on two cars. Pensioner discounts remain limited to Class 1 and 2 vehicles.

The MAIB's consulting actuary notes that the number of vehicles to which a pensioner discount has been applied have increased from 76 000 in 2008-09 to 98 000 in 2011-12, reflecting the extension of the pensioner discount to health care card holders and possibly other factors, such as the poor economic climate and an ageing population.¹⁰¹

¹⁰⁰ The definition of pensioner is included in Appendix G.

¹⁰¹ See Taylor Fry Premium Relativities Report 2012, p.14.

Although changes to the eligibility for the pensioner discount are a matter for Government and the MAIB, in its 2009 Investigation the Commission recommended that the MAIB collect data to assess the impact of extending pensioner discounts to Health Care Card holders. This was because if it was demonstrated that the discount for the broader group of all Health Care Card holders is not warranted on relativity grounds, then this will effectively mean that non-pensioner premium holders will be providing a cross-subsidy to Health Care Card holders.

Table 6.7 shows the average cost per vehicle for pensioners as a percentage of non-pensioners over the past four years, both including and excluding Future Care claims, on a fault basis. Table 6.7 shows that, on a fault basis, the experience amongst pensioners has been significantly worse than for non-pensioners over the past four years. The Regulator understands that this poorer outcome has been driven by higher claim frequency with average claims costs being similar.

Table 6.7: Pensioner average claims cost per vehicle as a percentage of non pensioner, fault basis

	2008-09	2009-10	2010-11	2011-12	Total
Pensioner as a % of Non-pensioner	74%	116%	178%	271%	132%
Pensioner as a % of Non-pensioner <i>excluding future care</i>	171%	147%	208%	189%	177%

Source: Taylor Fry Premium Relativities Report 2012 and MAIB Submission.

Table 6.8 shows a summary of claims frequency by concession type, on a fault basis. The MAIB notes that 2008-09 represents an unusual year and should be excluded from the analysis. Table 6.8 demonstrates that apart from 2010-11, Health Care Card claims frequency is not materially different to the claims frequency of other concession types. Furthermore claims frequency in 2009-10 was actually less than that of non-pensioners. This suggests that the inclusion of Health Care Card holders as pensioner may not be materially impacting the gap between pensioner and non-pensioner claims frequency. However, the Regulator understands that, on a fault basis, 20 per cent of claims could not be allocated to a concession type, hence any conclusions are limited in nature¹⁰².

¹⁰² The Regulator understands the reason for this is that sometimes when vehicles are registered as a general concession type rather than being directly allocated to a specific concession type.

Table 6.8: Claim frequency by concession type, fault basis

	2008-09	2009-10	2010-11	2011-12	Total	Excluding 2008-09
Centrelink	1.03%	0.53%	0.80%	0.58%	0.73%	0.63%
DVA	0.74%	0.48%	0.71%	0.86%	0.70%	0.69%
Health Care Card	0.00%	0.53%	1.15%	0.66%	0.67%	0.77%
Tas Concession	1.09%	0.63%	1.07%	0.83%	0.90%	0.84%
Total	1.07%	0.84%	1.06%	0.78%	0.93%	0.88%
Non Pensioners	0.71%	0.58%	0.50%	0.43%	0.55%	0.71%

Source: Taylor Fry Premium Relativities Report 2012.

Whilst the conclusion concerning Health Care Card holders individually may be limited, the data does indicate that the discount provided to pensioners as a whole represents a cross subsidy.

The Minister for Infrastructure and the Treasurer have signed a ministerial charter with the MAIB. With regards to the pensioner discount the charter states “The Portfolio Minister and the Treasurer expect the Motor Accidents Insurance Board to provide discounts to qualifying pensioners”.¹⁰³ At present, this cross subsidy would appear to be part of government policy however there may be scope to review eligibility in the future if the number of pensioners and claims materially impacts on the MAIB’s solvency.

6.9.1.1 Senior Card Holders

Stakeholders raised concerns that senior card holders are not eligible for a pensioner discount. As discussed above, the current level and eligibility for a pensioner discount is part of government policy. Widening the eligibility for the discount would create a further cross subsidy and place increasing financial pressure on the MAIB. Consideration of including senior card holders on the pensioner list is outside the scope of the Regulator’s Investigation. However, the Regulator notes that if eligibility was expanded, the Government would have to consider its impact on the MAIB’s solvency, including the impact of the ageing population as discussed above.

6.9.2 Level of discount

As discussed above, a 20 per cent discount is currently provided to private motor vehicles and light goods vehicles registered in the names of pensioners. A change in the proportion of pensioner-registered vehicles to total registered vehicles therefore has a direct impact on the MAIB’s revenue.

In general, the appropriate level of a discount should be consistent with the relative risk level of the group receiving the discount. However, as presented above this is

¹⁰³ Ministerial Charter, Motor Accidents Insurance Board, January 2012, p.5.

not straight forward as recent experience has suggested that the claims frequency is higher for pensioners compared to non-pensioners.

Furthermore, it is expected that the number of drivers aged 65 and over will double in the next 20 years. This means that there will likely be a considerable increase in the number of drivers eligible for pensioner discounts in the future, which will affect the relative proportion of discounted premiums.

The choice of the level of discount and the breadth of eligibility needs to balance the MAIB's financial position with the Government's and the MAIB's Board's social considerations. Increasing numbers of pensioners may start to tip the balance in favour of the financial needs of the MAIB, particularly if it impacts on its solvency requirements as discussed in Chapter 5. Increased pressure may require that either other premiums increase to compensate or that the Government would need to consider providing a Community Service Obligation (CSO) payment to directly fund discounts similar to that provided to other Government Business Enterprises and State-owned companies. This latter approach would be preferable in terms of minimising the impact of the cross subsidy on non-pensioners.

The MAIB is not proposing to change the 20 per cent discount over the next four years. The Regulator further recommends the MAIB continue to collect data on the split between pensioners and non-pensioner and the various pensioner types to assist the Regulator's consideration of this issue in the future.

6.10 Regulator's conclusions

Based on the above discussion, the Regulator recommends that the following changes are made to the MAIB's premium relativities:

- Class 4, 5 and 20 motorcycles from 1.28 up to 1.50;
- Class 6 Taxi and Chauffeured Hire Car from 3.09 up to 3.50;
- Class 18 Off-road and Recreational Vehicles from 0.59 up to 0.75; and
- Class 16 Medium Passenger Vehicles from 1.58 down to 1.35.

The Regulator also recommends that the MAIB continue to review the financial implications of increasing pensioner numbers.

6.10.1 Recommended maximum premiums

The Regulator recommends that:

1. from 1 December 2013 the base premium for all premiums be reduced by 7.4 per cent (excluding duty and GST).
2. the following relativity adjustments occur:

- Classes 4, 5 and 20 (Motorcycles) where the maximum premiums, excluding duty, be increased by 4.04 per cent per annum from 1 December 2013 and for all subsequent years of the pricing period;
 - Class 6 (Taxis and Chauffeured Hire Cars) where the maximum premiums, excluding duty, be increased by 3.16 per cent per annum from 1 December 2013 and for all subsequent years of the pricing period;
 - Class 18 (Off-road and Recreational Vehicles) where the maximum premiums, excluding duty, be increased by 6.18 per cent per annum from 1 December 2013 and for all subsequent years of the pricing period, but that the MAIB take into account the impact on registrations of such an increase before implementing such a change; and
 - Class 16 (Medium Passenger Vehicles) where the maximum premiums, excluding duty, be decreased by 3.86 per cent per annum from 1 December 2013 and for all subsequent years of the pricing period.
3. all maximum premiums to be escalated annually from 1 December 2014 by the annual change in AWOTE, in addition to the recommended percentage change due to the application of the relativity adjustments recommended in 2) above.
 4. maximum half-yearly premiums to be equal to one half of the maximum annual premiums¹⁰⁴ plus three per cent rounded to the nearest five cents, and
 5. maximum quarterly premiums to be equal to one quarter of the maximum annual premiums plus six per cent rounded to the nearest five cents.

The maximum premiums applicable from 1 December 2013 are presented in Table 6.9.

Subject to the Government's acceptance of the Regulator's recommendations, the Regulator notes that, if the MAIB's financial circumstances permit during the next pricing period, the MAIB would, as it has chosen to do in the past, be in a position to consider not increasing premiums to the maximums detailed recommended in the premium order arising out of the final report of this Investigation. That said, the MAIB may still consider changes to its premium relativities, given that premium relativities have not materially changed over the two previous review periods to match both the Regulator's and the MAIB's consulting actuary's previous recommendations. The Regulator notes that its recommendation to reduce the average premium now means that premiums are more likely to increase in the future from this lower base

¹⁰⁴ Half-yearly and quarterly premiums are calculated by reference to the formulae in the MAIB Premiums Order and will vary depending on the number of days in the period in question. For example, one quarter could have 90 days and the next 92 days.

which would provide a greater opportunity for the MAIB to adjust premium relativities.

In its submission, the MAIB proposed an alternative approach for premiums relativities. Specifically, the MAIB proposed maintaining premiums for Class 4, 5, 20, 6 and 18 at the current level with smaller annual adjustments until the proposed relativities are met by the end of the pricing period.

Whilst the Regulator can see merit in the MAIB's approach, the Regulator considers its recommended approach to be more appropriate because the benefits of the MAIB's cost reductions are passed on to all motorists, rather than a select few. In this sense, all premiums will be rebased consistent with the MAIB's lower costs.

Table 6.9: Recommended maximum premiums (including GST and duty) - 1 December 2013 to 30 November 2014

	Class of Vehicle	Present Premium	Adjustment to base premium	Impact of relativity change (where applicable)	Recommended Maximum Premium from 1 Dec 2013
1	Motor Car	364	338		338
	Pensioner Discount	295	275		275
2	Light Goods Vehicle	364	338		338
	Pensioner Discount	295	275		275
3	Heavy Goods Vehicle	563	523		523
4	Medium Motorcycle	462	429	17	446
5	Large Motorcycle	462	429	17	446
6	Taxi and Chauffeured Hire Car	1082	1003	31	1034
7	Large Passenger Vehicle	908	842		842
8	Hire and Drive Vehicle	908	842		842
9	Caravan, Plant and Machinery	65	62		62
10	Heavy Trailer	121	113		113
11	Mobile Crane	383	356		356
12	Restricted Registration Vehicle	67	64		64
13	Plant & Machinery (Self-Propelled)	150	140		140
14	Motor Trade Plate	383	356		356
15	Farm Tractor	150	140		140
16	Medium Passenger Vehicle	563	523	-20	503
17	Small Motorcycle	192	179		179
18	Off Road & Recreational Vehicles	224	209	11	220
19	Short Term Permits	54	51		51
20	Medium Large Motorcycle	462	429	17	446
21	Vintage Motor Vehicle or Street Rod	54	51		51
22	Special Interest Vehicle	131	123		123

Note Duty has increased from \$6 to \$20 per vehicle since the previous investigation.

7 OTHER MATTERS

This Chapter discusses a number of other matters not addressed elsewhere in this report.

7.1 National Injury Insurance Scheme

The National Injury Insurance Scheme (NIIS) is a proposal to establish a 'federation' of accident insurance schemes for catastrophic injury. The NIIS was first proposed by the Productivity Commission (PC) in its report on disability care published in July 2011. A National Disability Insurance Scheme (NDIS) was also proposed to provide long-term care and support for Australians with significant, ongoing disabilities.

The PC notes that "Currently, there is a range of state and territory arrangements for insuring people for disability arising from accidents, including workers' compensation schemes throughout Australia, hybrid no-fault third-party motor vehicle insurance arrangements in some states and territories (Northern Territory, Victoria, Tasmania and New South Wales), limited provision for people suffering disability as a result of crime (a major and rising source of catastrophic injury) and fault-based medical indemnity and public liability insurance."¹⁰⁵ The PC considered that there is little rationale for the differences in the state and territory arrangements for dealing with catastrophic injury.

The PC also considered that only no-fault accident compensation schemes meet people's lifetime care and support costs efficiently and that fault based/common law schemes parties involved in catastrophic accidents receive inadequate support. Thus the PC considered that "The creation of a national injury scheme would avoid many of the deficiencies of common law compensation systems and improve outcomes for people with catastrophic injuries."¹⁰⁶

The NIIS would be all encompassing, covering not only catastrophic injuries from motor vehicle accidents, but also from medical treatment, criminal injury and general accidents occurring within the community or at home (excluding cerebral palsy associated with pregnancy or birth).

¹⁰⁵ Productivity Commission (2011) "Disability and Care Support, Productivity Commission Inquiry Report: Overview and Recommendations" No.54, p.43.

¹⁰⁶ Ibid.

The Commonwealth Government established an advisory group to provide advice on issues associated with the establishment of a NIIS. The advisory group met in Sydney in November of 2012 and developed the following principles to underpin the design of the NIIS:

“The NIIS would deliver:

1. reasonable and necessary lifetime care and support to people who suffer a catastrophic injury;
2. no-fault cover – cover regardless of whether an individual has legal recourse to sue for compensation;
3. comprehensive cover – no gaps across motor vehicle accidents, medical accidents, workplace accidents, criminal injury and general accidents at home or in the community;
4. greater choice and control to injured persons over the services they receive;
5. access to early interventions;
6. best practice data and information sharing principles;
7. a scheme funded in accordance with insurance principles – building on existing insurance arrangements; and
8. incentives for appropriate behaviour and increased risk management.

In advancing the design of the NIIS the Commonwealth, States and Territories should:

1. draw on the experience of existing lifetime care and support schemes such as the Victorian Transport Accident Commission and NSW Lifetime Care and Support Authority; and
2. have specific regard to the design principles underpinning the implementation of the NDIS.”¹⁰⁷

The Regulator understands that the NIIS is being progressed through heads of treasury of the different state and territories.

However, at this stage the timing and the details of any proposal are unclear.

The MAIB’s submission considered the potential impact of the NIIS on its operations should it be implemented as currently proposed. The conclusions from that analysis are that the current proposals will increase motor vehicle related costs to the MAIB in three areas:

¹⁰⁷ See <http://mfss.treasurer.gov.au/DisplayDocs.aspx?doc=pressreleases/2012/082.htm&pageID=003&min=brs&Year=&DocType=>

- additional Future Care claims due to the inclusion of previously uninsured claims;
- additional costs from currently insured claims that have medical and like costs capped at the statutory maximum, but which would exceed that cost under a NIIS scheme; and
- additional uninsured catastrophic (but not Future Care) claims under the definition used in the PC report.

The additional annual cost per vehicle is estimated to be between \$18 and \$24 consisting of:

- \$14.70 to \$19.60 from previously uninsured Future Care claim;
- \$1.90 from additional costs from currently insured capped catastrophic claims; and
- \$1.70 to \$2.20 from previously uninsured catastrophic claims.

The MAIB notes that these estimates are the subject of considerable uncertainty given the potential complexity of any new system and the fact that final decisions are yet to be made by government.

The Regulator considers that there is too much uncertainty at this stage to include an allowance for the NIIS in the break-even premium. However, should the NIIS be implemented during the pricing period and the financial impact is material the Regulator suggests that the impact should be investigated and, if necessary, the pricing order amended. Options for considering what a material impact may be are considered in Section 7.2.

7.2 Conditions for re-opening the pricing order

For this Investigation there were a number of uncertainties surrounding the estimation of some parameters. Specifically, uncertainty surrounded:

1. the potential introduction of the NIIS;
2. possible future increases in hospital bed-day costs;
3. the introduction of new ambulance costs; and
4. forecast claims frequency in light of a sustained declining historical trend.

As noted in this report, whilst uncertainty exists over 3. and 4., the Regulator accepted the MAIB's proposal due to a reasonably high level of information and therefore certainty about ambulance costs and the MAIB's ability to choose to not increase premiums should claims frequency continue to decline.

However, the Regulator considered that too much uncertainty surrounded the timing and magnitude of both the potential increase in hospital costs and the

implementation of the NIIS. That said the Regulator understands that decisions may be made concerning these issues during the pricing period.

For the draft report, the Regulator proposed recommending that the premium pricing order should be amended if the NIIS is implemented or the hospital bed-day costs increase during the pricing period and individually these changes are deemed by the Government to have a material impact.

In the draft report to determine a material impact, the Regulator considered the advice it received from its actuarial consultant, Finity, on the solvency range that may be appropriate. In this regard, the Regulator considered that if solvency falls below zero per cent (i.e. the MAIB has sufficient assets to meet its costs and liabilities but no more) as a result of these cost items then its solvency range may be considered poor and a re-opener required.

7.2.1 Submissions

In its submission on the draft Report, the MAIB indicated that it found discussion on this issue to be unusual as it does not appear to be within the investigation's Terms of Reference.

Furthermore, the MAIB did not consider zero per cent to be an appropriate lower bound for solvency, as discussed in Section 4.2.5. The MAIB and its consulting actuary Taylor Fry assert that it can be dangerous for accident compensation schemes to subsidise premiums by running down surpluses (i.e. setting prices below the average premium). The MAIB and Taylor Fry note other schemes that have done this have found it difficult to increase premiums to restore solvency to the desired level once the surplus had been expended.

Taylor Fry consider that surpluses can be used to subsidise premiums when:

- the subsidy needs to be gradually tapered off, so that the necessary premium increase (once the surplus has been used) is small (i.e. avoid overshooting); and
- there are no impediments to subsequent premium increases.

Taylor Fry consider that the first criterion is not met for accident compensation scheme because surpluses are volatile due to fluctuations in assets and liabilities.

Taylor Fry also consider that the second criterion is not met because motorists generally do not understand when premiums have been subsidised and do not recognise the need for a premium increase, which can lead to political interference in the premium process as observed through history in Australia.¹⁰⁸

Taylor Fry also considers the use of surpluses generated from past motorists, together with strong investment returns, would effectively lead to future generations

¹⁰⁸ Taylor Fry (2013) "Submission to the Investigation into the Motor Accidents Insurance Board's Pricing Policies", p.2.

being subsidised by past generations which it considers inequitable. Taylor Fry consider that equity indicates that future generations of motorists should aim to maintain the scheme's solvency position.

Finally, Taylor Fry note that the draft report does not contain any analysis of the consequences of allowing premiums to remain below break-even until solvency reaches zero per cent.

The MAIB and Taylor Fry consider that if there is to be a condition for a re-opener, it should be based on changes in the break-even premium. Specifically, the MAIB considers a material impact may be if the break-even premium increases by at least five per cent, after the break-even premium has been re-calculated by Taylor Fry to ensure materiality is considered with reference to current conditions. The MAIB note that "this approach would provide a mechanism for appropriate reconsideration of the premium in light of material changes in cost factors not reflected in the Regulator's recommendations, whilst ensuring that account can be taken of any offsetting reductions in costs that may occur between the time of the Regulator's recommendations being made and the new cost impact being known".¹⁰⁹

7.2.2 Conditions for re-opening the pricing order – Regulator's final conclusion

With respect to the Regulator's draft proposal of using solvency to trigger a re-opening of the pricing order, the Regulator notes that both the MAIB and Taylor Fry have taken a different interpretation of the Regulator's draft proposal with respect to using solvency as the trigger for the pricing order being re-opened, as explained in Section 4.2.6 of this report. The MAIB and Taylor Fry have both expressed concerns that the Regulator's recommendations may lead to surpluses subsidising costs until solvency is at zero per cent. This is not what the Regulator recommended in its draft report.

Rather, the Regulator notes that there are significant costs involved in undertaking a pricing investigation for the MAIB, the Government and ultimately motorists. Furthermore, the Regulator notes that the pricing order is for four years, thus any corrections can be made at the time of the next investigation (the FWA decision is an example from the current Investigation). Given this, the Regulator considered that the pricing order should only be re-opened if the financial position of the MAIB is compromised due to a material impact from increases in costs associated with the NIIS or the hospital bed-day costs individually. With respect to the Regulator's draft recommendation, the Regulator considers that this approach sufficiently meets the criteria outlined by Taylor Fry for when surpluses should subsidise premiums (see Section 7.2.1). The first criterion is met because any subsidy would end at the end of the pricing period (i.e. a maximum of four years). The second criterion is met because premium increases, if required, would be assessed in the same manner as they currently are during each investigation period. Furthermore, given that these adjustments would occur over a maximum of a relatively short period of four years,

¹⁰⁹ MAIB (2013) "Submission – 2013 Investigation into the Pricing Policies of the Motor Accidents Insurance Board", p.6.

the Regulator does not consider there to be equity issues between future generations and past generations of motorists (as asserted by Taylor Fry). This is because over this period the majority of motorists would be the same group of individuals.

The Regulator notes that analysis has been undertaken with respect to the potential impact of hospital costs and the Regulator's recommendations. Scenario 1 under Section 5.3 presents the estimated solvency position of the MAIB if the Regulator's proposal is adopted and hospital costs double from year two of the pricing period. Under this scenario, solvency may be expected to fall from approximately 26.8 per cent to 26.1 per cent by the pricing period in 2016-17. The Regulator notes that this is still 1.1 percentage points above the upper bound of the MAIB's solvency target range.

With respect to the NIIS, a similar analysis was not undertaken in the draft report primarily because the MAIB did not propose to include potential NIIS costs in its break-even premium. However, the indicative estimate provided by the MAIB of the impact of the introduction of the NIIS suggests that the average cost per vehicle may increase by up to \$24. The Regulator notes that the average cost per vehicle if hospital costs double is approximately \$19 per vehicle (before profit), being the difference between the Regulator's and the MAIB's proposed break-even premium. Given that the impact of hospital costs doubling from year two of the pricing order was a 0.7 percentage point solvency reduction to 26.1 per cent, it is reasonable to consider that the impact of the NIIS, if it was implemented in year two of the pricing period, will still mean that the MAIB's solvency level would be around the top of its solvency target range at 25 per cent if investment returns equal forecast.

Notwithstanding the preceding discussion, the Regulator recommends that the approach suggested by the MAIB and Taylor Fry should be adopted by the Minister in considering whether to re-open the pricing order. The Regulator understands that it is more common practice in the insurance industry to use future income to fund future costs and not subsidise future income through the use of solvency reserves. In addition, this is the methodology adopted by the Regulator in assessing the MAIB's break-even premium in both the current and in previous investigations.

Furthermore, outside of an investigation, the Regulator understands that the MAIB adopts the same methodology when it reviews its costs each year to determine whether premiums need to be increased up to the maximum allowed by the Regulator. In doing so, the MAIB calculates a break-even premium and adds a profit margin. The Regulator understands that the MAIB does not have regard to solvency or past investment returns when setting its future premiums. In its submission on the draft report the MAIB considered that solvency was largely an irrelevant consideration in setting premiums, except in circumstances when solvency has dropped to an unacceptable level.

The Regulator notes that solvency at any one point in time is determined by past premium income, investment returns on that income and outstanding claims liabilities at that time. Therefore the MAIB effectively earmarks its existing reserves to fund existing liabilities and funds future claims from future premium income plus

investment returns on that future premium income. Accordingly, it may be considered inconsistent to use investment returns on historical premiums to subsidise future premiums.

The Regulator notes that solvency at any one point in time can fluctuate widely due to market fluctuations. If reserves were used to subsidise future premiums, there would be less capacity to manage the consequences of market fluctuations and to ensure the MAIB's solvency position remains on average strong to fund its existing known claims.

Given this, the Regulator considers a re-opener, with respect NIIS or the hospital bed-day costs, should have regard to expected future premiums and their ability to recover future costs. As such the Regulator recommends that a re-opener would not be necessary unless increases in costs associated with the NIIS or the hospital bed-day costs individually increase the break-even premium by at least five per cent, having been re-calculated based on the most up to date information, consistent with the MAIB's and Taylor Fry's suggested approach.

7.3 Issues raised during initial consultation

This section provides a response to stakeholders concerns not addressed elsewhere in this report.

Alternative pricing structures including charging an excess for claims, charging individuals based on accident experience such as a no claims bonus and charges placed on fuel

There are numerous ways in which prices, including premiums for CTP insurance, can be charged to consumers. However, irrespective of the method adopted, a balance must be struck between the competing objectives of simplicity, efficiency and equity. Trade-offs are made depending on the weighting placed on the various objectives.

The Regulator considers that the MAIB scheme provides a reasonably balanced pricing structure when considering these objectives. This includes:

- a simple price structure based on relative vehicle type;
- an equitable price structure through the allocation of higher premiums to vehicles classes that cause a higher volume and more expensive accidents. In this light vehicle owners in higher risk categories are contributing relatively more to the scheme as they are deemed to cause more accidents based on claims evidence; and
- an efficient system because only the costs required to efficiently operate the scheme are able to be recovered by the MAIB through premiums.

The suggested changes by stakeholders would appear to place a greater weight on the equity criteria by suggesting the adoption of a possibly more complicated

approach whereby those individuals that raise more risk and result in the MAIB incurring additional costs are charged higher premiums.

However, in all cases these differing pricing systems would likely lead to higher overall costs to the MAIB which would compromise efficiency and increase premiums for all vehicles. This may occur through investment in new systems to monitor individual driving patterns more closely. For example, the Regulator understands that premium collection costs in NSW are up to five times more than in Tasmania on a per vehicle basis. This may be as a result of NSW's much more complicated scheme that allows for no-claim bonuses and different premiums based on the age of the driver and the area they live in. If a similar system was adopted in Tasmania, the cost per driver may be even more expensive as some fixed costs would need to be spread over a relatively fewer number of drivers.

In addition the Regulator notes that an unintended consequence of further specific pricing may lead to an increase in the number of unregistered vehicles. This may occur because higher risk vehicles would be charged a higher price which could discourage registration, similar to the Regulator's concerns surrounding Class 18 off road and recreation vehicles as discussed in Section 6.7.10. If this were to occur, the MAIB would be subject to the same exposure but with reduced premium income.

Hence the costs of changing the pricing structure would likely outweigh any benefits from the change. Furthermore, in most cases it would likely add complexity to the pricing system. It is for these reasons, and the fact that the pricing system appears to have been operating effectively, that the Regulator is not convinced that a change to the pricing system is warranted.

Why is my motorcycle premium high when I switched from a class one vehicle and I have limited accident experience?

For the reasons outlined above the Regulator considers that it would be unnecessarily costly to monitor the accident history of individuals. That said, the Regulator does not consider that the historical driving behaviour of an individual for one class of vehicle should be considered for premiums in relation to a new and different class of vehicle. This is because each vehicle class contains its own risk profile. A safe driver in a class 1 vehicle will not necessarily achieve the same level of safe driving in another vehicle of a different class.

It is unfair for individuals to pay two separate premiums just because they own two vehicles.

The Regulator appreciates that some may perceive it to be unfair to pay more than one MAIB premium if they own more than one vehicle. This is because if one individual owns and uses more than one vehicle, they cannot operate those vehicles at the same time. Hence their risk of being involved in an accident does not change if they have two vehicles. Their risk will only change incrementally by the difference in the risk of operating one type of vehicle compared to the other vehicle next (i.e. if they own a car and a motor cycle they have different risk profiles depending on the vehicle they are using at the time).

However, the difficulty with allowing for such a change would provide the incentive for families and groups of individuals to register a number of vehicles in the one name and pay only one premium. This would expose the MAIB to the same accident related costs since more than one driver would be operating those vehicles. However, the amount of funds available to the MAIB would be significantly reduced under this scenario. The MAIB would therefore receive much less income to pay for claims but still be exposed to the same level of risk.

Furthermore, whilst an individual owner may primarily use the two vehicles, other friends and families may, for example, use the second vehicle if they visit on holidays. In such a circumstance, the MAIB would still be exposed to greater risk without the ability to recover sufficient income from road users.

For these reasons, the Regulator recommends that MAIB premiums should continue to be applied on a per vehicle basis.

Making roads safer for motorcyclists by installing plastic sleeves around all wire ropes

The Regulator notes that it is outside the scope of this Investigation to consider physical road safety mechanisms and their effectiveness. However, the Regulator understands that these issues would be examined by the Road Safety Advisory Council.

In terms of the impact of improved safety measures on premiums, the Regulator notes that any improvements in safety resulting from road safety initiatives would be reflected in relative premiums over time.

The type of cover offered by the MAIB and premiums

Stakeholders raised concerns about the type of cover offered by the MAIB and the fact that it may be unnecessarily leading to higher than required premiums.

The Regulator concedes that the no-fault aspect of the MAIB scheme carries with it higher costs but notes that the level of coverage is determined by the MA Act and common law requirements and it is outside the scope of this Investigation to consider those requirements. Rather the Regulator's role is limited to considering the efficiency of the MAIB's operations and its associated pricing policies in the context of its ability to raise funds to provide those benefits.

The Regulator notes that with the potential move to the NIIS, the MAIB scheme may be harmonised to some extent with any proposed national model. The MAIB's submission (Section 7.1) sets out the MAIB's views on the expected impact of the NIIS on premiums.

Motorcycle classification and LAMS

Stakeholders were also concerned that the current motorcycles categories are inappropriate and lead to higher costs for some motorcycles. In particular, stakeholders considered that a new category for Learner Approved Motorcycle

Schemes (LAMS) motorcycles should be created and premiums charged at a similar rate as Class 1 vehicles.

The Regulator understands that the LAMS scheme is an initiative that identifies motorcycles that are considered suitable for motorcycle learners and for all riders in their first year after progression from a motorcycle learner licence. These motorcycles have restrictions on their power to weight ratio and their engine capacity aimed at improving safety for new riders. The Regulator understands that the Roads and Maritime Services of NSW administer the national LAMS list. The list includes the majority of motorcycles with an engine capacity of less than 250cc plus over 500cc larger motorcycles that meet the requirements of the scheme.¹¹⁰

The MAIB currently classifies motorcycles into four categories, as outlined in Chapter 6. Charging is based on accident history with costs allocated on a fault basis. Based on this data, motorcycles with less than 125cc engine capacity have a relatively less expensive accident history compared to Class 1 vehicles and thus are charged a lower premium. However, the accident history for all motorcycles above 125cc suggests that these motorcycles caused relatively much greater cost to the MAIB compared to Class 1 vehicles. Given this, all motorcycles with a greater than 125cc engine capacity are charged a higher premium than Class 1 vehicles.

LAMS vehicles are spread throughout these categories with many falling into the medium-large category, Class 20. Along with the other categories, Class 20 has a higher claims experience than its current premium relativity suggests, including that proposed by the MAIB. Hence, based on the available evidence, LAMS motorcycles that fall in the categories above 125cc experience higher claims than Class 1 vehicles and thus by extension should attract a relatively higher premium.

In previous investigations the Regulator has asked the MAIB to collect LAMS data, specifically data on the accident history of motorcycles based on their power-to-weight ratio. Unfortunately the Regulator understands that the available data is insufficient to enable separation of the specific LAMS vehicles from non-LAMS vehicles within the MAIB's vehicle categories. Accident history between these different types of vehicles cannot, therefore, be directly compared. However, as discussed above, the greater specificity sought in pricing generally leads to increased overall costs and complexity which can outweigh the benefits obtained from such a change. The Regulator considers that the current pricing structure operates effectively.

¹¹⁰ See http://www.transport.tas.gov.au/licence_information_folder/motorcycle_learner_licence and <http://www.rta.nsw.gov.au/licensing/downloads/motorcyclesfornovicedrivers.html>

APPENDIX A: TERMS OF REFERENCE

ECONOMIC REGULATOR ACT 2009

2013 INVESTIGATION INTO THE PRICING POLICIES OF THE MOTOR ACCIDENTS INSURANCE BOARD

DRAFT TERMS OF REFERENCE

The Terms of Reference for the investigation to be conducted by the Office of the Tasmanian Economic Regulator (the Regulator)¹¹¹ into the pricing policies of the Motor Accidents Insurance Board (MAIB) are outlined below. These Terms of Reference meet the requirements set out in Section 25 of the *Economic Regulator Act 2009* (the Act).

The Functions and Other Activities of the MAIB

Under the Ministerial Charter in place for the MAIB, pursuant to the *Government Business Enterprise Act 1995*, the principal operation of the MAIB is to provide a compulsory no-fault third party motor accident compensation scheme in Tasmania. The principal objectives of the MAIB are to:

- be a successful business by operating in accordance with sound commercial practice and as efficiently as possible; and
- achieve a sustainable commercial rate of return in accordance with its corporate plan, having regard to the social and economic objectives of the State, as agreed in writing with the Portfolio Minister and the Treasurer.

In undertaking its core business, as required by MAIB's Ministerial Charter, the MAIB is required by the Portfolio Minister and the Treasurer to comply with the following strategic direction:

- ensure that an appropriate balance exists between premium income, the cost of claims and the Motor Accidents Insurance Board's prudential requirements so as to achieve a sustainable return;
- provide its services in a cost effective and efficient manner, while meeting the needs of its clients;
- ensure that its investment strategies maximise the probability of meeting its liabilities, particularly long tail liabilities;

¹¹¹ On 14 February 2013 the Minister for Finance wrote to the Regulator to confirm that references to the Office of the Tasmania Economic Regulator in the terms of reference were intended to be references to the Tasmanian Economic Regulator.

- invest its funds in a manner that is consistent with the Motor Accidents Insurance Board's Investment Policy Statement;
- manage financial performance and business risk;
- be proactive in funding road safety programs with the objective of reducing serious casualty claims; and
- advance the rehabilitation process with the aim of achieving optimum outcomes for persons suffering injuries as a result of motor accidents.

The Pricing Policies and the Monopoly Service to be Investigated

The Regulator is to investigate the prices levied on motorists to fund the current provision of motor accident personal injury insurance for all persons injured in motor vehicle accidents involving Tasmanian-registered vehicles.

The Date of Completion

The Regulator must provide a copy of the Final Report required under Section 35 of the Act in respect of the MAIB investigation by 31 July 2013. At an appropriate time during the investigation, the Regulator must make available a Draft Report.

Additional Matters to be Taken into Account

In addition to taking into account the matters referred to in section 31 of the Act, the Regulator must also take into account the following issues when conducting the MAIB pricing investigation:

- a. the scope and intent of the Motor Accidents (Liabilities and Compensation) Act 1973;
- b. whether any cross-subsidies exist in the current pricing structure (especially in relation to different vehicle classes and different risk types) and if they exist, the benefits and costs of retaining these cross-subsidies;
- c. an appropriate mechanism to remove these cross-subsidies should this be considered desirable;
- d. the appropriateness of the MAIB using current insurance industry prudential requirements as a benchmark to measure long term sustainability;
- e. the provision of funding by the MAIB to the following:
 - a. the Road Safety Advisory Council; and
 - b. recognised groups through the Injury Prevention and Management Foundation;
- f. the appropriateness of current claim liability valuations;
- g. the loading required on periodic premiums to ensure that there is no net impact on MAIB's revenue;

- h. the impact of recent amendments to the following acts on vehicle classification:
 - a. *Passenger Transport Services Act 2011*;
 - b. *Taxi and Luxury Hire Car Industries Amendment Act 2011*; and
 - c. *Passenger Transport and Related Legislation (Consequential Amendments) Act 2011*;
- i. the potential impact of the proposed National Injury Insurance Scheme on the MAIB;
- j. the potential impact of the introduction of the National Heavy Vehicle Regulator; and
- k. the correlation of MAIB classification of vehicles and the premium order to other areas managed by state regulation.

Requirement for the Regulator to Make Recommendations

The Final Report provided by the Regulator under Section 35 of the Act must contain recommendations in relation to appropriate maximum prices (as defined in Section 4 of the Act) to be charged by the MAIB for each category of vehicle to provide motor accident personal injury insurance for all persons injured in motor vehicle accidents involving Tasmanian-registered vehicles during the period of four years after the completion of the Final Report.

APPENDIX B: FINANCIAL FORECASTS

Regulator's Recommendations

Premium reduction of 7.4 per cent from 1 December 2013 (excluding duty and GST), then Australian AWOTE-based increases each year 1 December from 2014 onward

	Financial Year End													
	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
	\$000's	\$000's	\$000's	\$000's	\$000's	\$000's	\$000's	\$000's	\$000's	\$000's	\$000's	\$000's	\$000's	\$000's
Operating Statement														
Gross Written Premium	126,265	133,152	138,310	139,271	140,636	137,455	139,091	146,818	155,000	163,636	172,727	182,364	192,545	203,273
Growth in Gross Written Premium	5.5%	5.5%	3.9%	0.7%	1.0%	-2.3%	1.2%	5.6%	5.6%	5.6%	5.6%	5.6%	5.6%	5.6%
Earned Premium	126,080	130,247	136,475	139,167	140,049	139,866	136,863	143,633	151,532	159,976	168,862	178,285	188,240	198,728
Reinsurance Premium	-5,139	-5,272	-5,344	-5,448	-5,523	-6,315	-6,732	-7,174	-7,644	-8,147	-8,683	-9,255	-9,864	-10,510
Net Earned Premium	120,941	124,975	131,131	133,719	134,526	133,551	130,121	136,359	143,888	151,829	160,179	169,030	178,376	188,218
Growth in Net Earned Premium	3.3%	3.3%	4.9%	2.0%	0.3%	-0.4%	-2.6%	4.8%	5.5%	5.5%	5.5%	5.5%	5.5%	5.5%
Movement in DAC	0	0	-43	-23	450	28	29	30	30	31	32	33	33	34
Underwriting (collection) expenses	-2,427	-2,493	-2,637	-2,642	-2,800	-2,870	-2,942	-3,016	-3,092	-3,170	-3,250	-3,332	-3,416	-3,502
Unexpired Risk	-1,710	4,527	0	-428	0	0	0	0	0	0	0	0	0	0
Third party & reinsurance recoveries received	14,457	1,380	5,589	3,453	935	1,605	1,621	1,637	1,723	1,740	1,758	1,775	1,871	1,890
Reinsurance recoveries movement	-3,672	-2,161	1,751	10,037	6,722	156	156	1,922	167	168	169	2,166	181	182
Claims Cost	-74,235	-100,093	-133,559	-200,666	-124,827	-147,673	-156,885	-165,613	-175,461	-185,405	-195,849	-206,457	-218,455	-230,739
Growth in claims cost (excluding reinsurance recoveries movement)	34.8%	33.4%	33.4%	50.2%	-37.8%	18.3%	6.2%	5.6%	5.9%	5.7%	5.6%	5.4%	5.8%	5.6%
Other claim related payments	-463	-494	-419	-428	-430	-450	-470	-490	-510	-530	-550	-570	-600	-630
Underwriting Result	52,891	25,641	1,813	-56,978	14,176	-15,663	-28,370	-29,171	-33,255	-35,337	-37,511	-37,355	-42,010	-44,547
Administration expenses	-5,166	-5,394	-5,371	-5,693	-5,950	-6,177	-6,410	-6,650	-6,900	-7,115	-7,340	-7,619	-7,910	-8,210
Foundation	-906	-947	-687	-698	-1,100	-1,113	-1,175	-1,240	-1,309	-1,382	-1,459	-1,540	-1,626	-1,715
Motorcycle safety strategy	-10	-77	-8	-3	-15	-15	-15	-15	-15	-15	-15	-15	-15	-15
Road safety task force	-3,015	-3,240	-3,400	-3,480	-3,500	-3,700	-3,900	-4,100	-4,300	-4,500	-4,700	-4,900	-5,100	-5,300
Road infrastructure	-1,581	-635	0	0	0	0	0	0	0	0	0	0	0	0
Total Expenses	-10,678	-10,293	-9,466	-9,874	-10,565	-10,982	-11,438	-11,940	-12,455	-12,939	-13,437	-13,993	-14,565	-15,151
Other income	0	0	431	207	461	474	487	501	515	530	545	560	576	592
Net Investment Income	-68,519	86,448	76,717	23,085	107,560	80,576	85,790	91,445	97,953	104,758	112,088	119,953	128,070	136,684
Operating Result before tax	-26,306	101,796	69,495	-43,560	111,632	54,395	46,469	50,835	52,758	57,012	61,685	69,165	72,071	77,578
Tax Expense	12,265	-27,497	-17,829	16,506	-33,490	-16,319	-13,941	-15,251	-15,827	-17,104	-18,506	-20,750	-21,621	-23,273
Operating Result after Tax	-14,041	74,299	51,666	-27,054	78,142	38,076	32,528	35,584	36,931	39,908	43,179	48,415	50,450	54,305
Other Comprehensive Income	0	0	103	-947	0	0	0	0	0	0	0	0	0	0
Total Operating Result	-14,041	74,299	51,769	-28,001	78,142	38,076	32,528	35,584	36,931	39,908	43,179	48,415	50,450	54,305
Financial Position														
Shareholders Funds	220,240	271,436	288,638	240,388	312,390	334,249	345,348	363,681	384,979	402,761	427,637	457,239	487,287	519,704
Total Deferred Dividends	42,935	56,981	58,175	23,926	56,857	59,678	54,514	55,054	57,887	55,715	59,002	64,396	69,219	74,484
Outstanding claims reserve	679,220	706,655	766,069	893,751	941,780	998,824	1,065,604	1,135,911	1,211,004	1,290,120	1,372,962	1,459,039	1,549,048	1,642,750
Return on average shareholders' funds	-5.7%	30.2%	18.5%	-10.6%	28.3%	11.8%	9.6%	10.0%	9.9%	10.1%	10.4%	10.9%	10.7%	10.8%
Solvency	15.5%	24.2%	25.7%	18.6%	24.0%	25.3%	25.8%	26.3%	26.8%	26.9%	26.9%	26.9%	27.0%	27.1%

MAIB Proposal

Scenario 1: Australian AWOTE increase each year from 1 December 2013 onward

	Financial Year End													
	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
	\$000's	\$000's	\$000's	\$000's	\$000's	\$000's	\$000's	\$000's	\$000's	\$000's	\$000's	\$000's	\$000's	\$000's
Operating Statement														
Gross Written Premium	126,265	133,152	138,310	139,271	140,636	146,091	154,182	162,727	171,818	181,364	191,455	202,091	213,364	225,182
Earned Premium	126,080	130,247	136,475	139,167	140,049	143,147	150,724	159,077	167,965	177,296	187,162	197,559	208,580	220,132
Reinsurance Premium	-5,139	-5,272	-5,344	-5,448	-5,923	-6,315	-6,732	-7,174	-7,644	-8,147	-8,683	-9,255	-9,864	-10,510
Net Earned Premium	120,941	124,975	131,131	133,719	134,126	136,832	143,992	151,903	160,321	169,149	178,479	188,304	198,716	209,622
Movement in DAC	0	0	-43	-23	450	28	29	30	30	31	32	33	33	34
Underwriting (collection) expenses	-2,427	-2,493	-2,637	-2,642	-2,800	-2,870	-2,942	-3,016	-3,092	-3,170	-3,250	-3,332	-3,416	-3,502
Unexpired Risk	-1,710	4,527	0	-428	0	0	0	0	0	0	0	0	0	0
Third party & reinsurance recoveries received	14,457	1,380	5,589	3,453	935	1,605	1,621	1,637	1,723	1,740	1,758	1,775	1,871	1,890
Reinsurance recoveries movement	-3,672	-2,161	1,751	10,037	6,722	156	156	1,922	167	168	169	2,166	181	182
Claims Cost	-74,235	-100,093	-133,559	-200,666	-133,866	-157,128	-166,950	-176,352	-186,916	-197,623	-208,877	-220,351	-233,271	-246,539
Other claim related payments	-463	-494	-419	-428	-430	-450	-470	-490	-510	-530	-550	-570	-600	-630
Underwriting Result	52,891	25,641	1,813	-56,978	5,037	-21,827	-24,564	-24,366	-28,277	-30,235	-32,239	-31,975	-36,486	-38,943
Administration expenses	-5,166	-5,394	-5,371	-5,693	-5,950	-6,177	-6,410	-6,650	-6,900	-7,115	-7,340	-7,619	-7,910	-8,210
Foundation	-906	-947	-687	-698	-1,100	-1,169	-1,233	-1,302	-1,375	-1,451	-1,532	-1,617	-1,707	-1,801
Motorcycle safety strategy	-10	-77	-8	-3	-15	-15	-15	-15	-15	-15	-15	-15	-15	-15
Road safety task force	-3,015	-3,240	-3,400	-3,480	-3,500	-3,700	-3,900	-4,100	-4,300	-4,500	-4,700	-4,900	-5,100	-5,300
Road infrastructure	-1,581	-635	0	0	0	0	0	0	0	0	0	0	0	0
Total Expenses	-10,678	-10,293	-9,466	-9,874	-10,565	-11,061	-11,568	-12,067	-12,590	-13,081	-13,567	-14,151	-14,732	-15,326
Other income	0	0	431	207	461	474	487	501	515	530	545	560	576	592
Net Investment Income	-68,519	86,448	76,717	23,085	107,560	80,681	86,301	92,407	99,213	106,344	114,021	122,188	130,571	139,470
Operating Result before tax	-26,306	101,796	69,495	-43,560	102,493	48,267	50,666	56,475	58,861	63,558	68,740	76,622	79,929	85,793
Tax Expense	12,265	-27,497	-17,829	16,506	-30,748	-14,480	-15,200	-16,943	-17,658	-19,067	-20,622	-22,987	-23,979	-25,738
Operating Result after Tax	-14,041	74,299	51,666	-27,054	71,745	33,787	35,466	39,532	41,203	44,491	48,118	53,635	55,950	60,055
Other Comprehensive Income	0	0	103	-947	0	0	0	0	0	0	0	0	0	0
Total Operating Result	-14,041	74,299	51,769	-28,001	71,745	33,787	35,466	39,532	41,203	44,491	48,118	53,635	55,950	60,055
Dividends	-3,9619	-23,103	-34,567	-20,249	-6,140	-15,577	-20,360	-16,477	-15,253	-22,173	-19,448	-20,881	-22,698	-24,340
Financial Position														
Shareholders Funds	220,240	271,436	288,638	240,388	305,993	324,203	339,309	362,364	388,314	410,632	439,302	472,056	505,308	541,023
Total Deferred Dividends	42,936	56,981	58,175	23,926	53,659	54,975	52,348	55,637	60,986	61,058	65,669	71,606	76,883	82,571
Outstanding claims reserve	679,220	706,655	766,069	893,751	950,922	1,009,356	1,075,579	1,146,388	1,222,034	1,301,751	1,385,237	1,472,006	1,562,754	1,657,247
Return on average shareholders' funds	-5.7%	30.2%	18.5%	-10.6%	26.3%	10.7%	11.3%	11.3%	11.0%	11.1%	11.3%	11.8%	11.4%	11.5%
Solvency	15.5%	24.2%	25.7%	18.6%	23.4%	24.5%	25.2%	25.9%	26.5%	26.9%	27.0%	27.2%	27.4%	27.7%

Scenario 2: CPI-based increases on 1 December 2013 and 1 December 2014, then Australian AWOTE each year thereafter

	Financial Year End													
	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
	\$000's	\$000's	\$000's	\$000's	\$000's	\$000's	\$000's	\$000's	\$000's	\$000's	\$000's	\$000's	\$000's	\$000's
Operating Statement														
Gross Written Premium	126,265	133,152	138,310	139,271	140,636	144,818	150,636	158,091	166,909	176,182	186,000	196,364	207,273	218,818
Earned Premium	126,080	130,247	136,475	139,167	140,049	142,645	148,156	154,677	163,166	172,231	181,829	191,962	202,626	213,912
Reinsurance Premium	-5,139	-5,272	-5,344	-5,448	-5,923	-6,315	-6,732	-7,174	-7,644	-8,147	-8,683	-9,255	-9,864	-10,510
Net Earned Premium	120,941	124,975	131,131	133,719	134,126	136,330	141,424	147,503	155,522	164,084	173,146	182,707	192,762	203,402
Movement in DAC	0	0	-43	-23	450	28	29	30	30	31	32	33	33	34
Underwriting (collection) expenses	-2,427	-2,493	-2,637	-2,642	-2,800	-2,870	-2,942	-3,016	-3,092	-3,170	-3,250	-3,332	-3,416	-3,502
Unexpired Risk	-1,710	4,527	0	-428	0	0	0	0	0	0	0	0	0	0
Third party & reinsurance recoveries received	14,457	1,380	5,589	3,453	935	1,605	1,621	1,637	1,723	1,740	1,768	1,775	1,871	1,890
Reinsurance recoveries movement	-3,672	-2,161	1,751	10,037	6,722	156	156	1,922	167	168	169	2,166	181	182
Claims Cost	-74,235	-100,093	-133,559	-200,666	-133,966	-157,128	-166,950	-176,352	-186,916	-197,623	-208,877	-220,351	-233,271	-246,539
Other claim related payments	-463	-494	-419	-428	-430	-450	-470	-490	-510	-530	-550	-570	-600	-630
Underwriting Result	52,891	25,641	1,813	-56,978	5,037	-22,329	-27,132	-28,766	-33,076	-35,300	-37,572	-37,572	-42,440	-45,163
Administration expenses	-5,166	-5,394	-5,371	-5,693	-5,950	-6,177	-6,410	-6,650	-6,900	-7,115	-7,340	-7,619	-7,910	-8,210
Foundation	-906	-947	-687	-698	-1,100	-1,159	-1,205	-1,265	-1,335	-1,409	-1,488	-1,571	-1,658	-1,751
Motorcycle safety strategy	-10	-77	-8	-3	-15	-15	-15	-15	-15	-15	-15	-15	-15	-15
Road safety task force	-3,015	-3,240	-3,400	-3,480	-3,500	-3,700	-3,900	-4,100	-4,300	-4,500	-4,700	-4,900	-5,100	-5,300
Road infrastructure	-1,581	-635	0	0	0	0	0	0	0	0	0	0	0	0
Total Expenses	-10,678	-10,293	-9,466	-9,874	-10,565	-11,051	-11,530	-12,030	-12,550	-13,039	-13,543	-14,105	-14,683	-15,276
Other income	0	0	431	207	461	474	487	501	515	530	545	560	576	592
Net Investment Income	-68,519	86,448	76,717	23,085	107,560	80,640	86,112	91,996	98,591	105,524	112,981	120,935	129,128	137,817
Operating Result before tax	-26,306	101,796	69,495	-43,560	102,493	47,734	47,937	51,701	53,480	57,715	62,411	69,818	72,581	77,970
Tax Expense	12,265	-27,497	-17,829	-16,506	-30,748	-14,320	-14,381	-15,510	-16,044	-17,315	-18,723	-20,945	-21,774	-23,391
Operating Result after Tax	-14,041	74,299	51,666	-27,054	71,745	33,414	33,556	36,191	37,436	40,400	43,688	48,873	50,807	54,579
Other Comprehensive Income	0	0	103	-947	0	0	0	0	0	0	0	0	0	0
Total Operating Result	-14,041	74,299	51,769	-28,001	71,745	33,414	33,556	36,191	37,436	40,400	43,688	48,873	50,807	54,579
Dividends	-39,619	-23,103	-34,567	-20,249	-6,140	-15,577	-20,323	-16,248	-14,691	-21,234	-18,100	-19,127	-20,659	-22,120
Financial Position														
Shareholders Funds	220,240	271,436	288,638	240,388	305,993	323,830	337,063	357,006	379,751	398,917	424,505	454,251	484,399	516,858
Total Deferred Dividends	42,935	56,981	58,175	23,926	53,659	54,788	51,244	53,091	57,119	56,084	59,829	65,138	69,883	75,052
Outstanding claims reserve	679,220	706,655	766,069	893,751	950,922	1,009,356	1,075,579	1,146,388	1,222,034	1,301,751	1,385,237	1,472,006	1,562,754	1,657,247
Return on average shareholders' funds	-5.7%	30.2%	18.5%	-10.6%	26.3%	10.6%	10.2%	10.4%	10.2%	10.4%	10.6%	11.1%	10.8%	10.9%
Solvency	15.5%	24.2%	25.7%	18.6%	23.4%	24.5%	25.1%	25.7%	26.2%	26.3%	26.3%	26.4%	26.5%	26.7%

APPENDIX C: SUMMARY OF SUBMISSIONS

Submission received from	Key Issues
Tony Miller	<ul style="list-style-type: none"> ▪ Considers that an optional excess should be available for policy holders. ▪ Considers part of the premiums should be placed on fuel. ▪ Supports plastic sleeves being placed around wire ropes to increase safety for motorcyclists. ▪ Supports reclassification of motorcycles into three categories, less than 125cc, Learner Approved Motorcycle Scheme (LAMS) motorcycles and all other motorcycles or further categorisation based on risk. Suggests that less than 125cc and LAMS should not be charged more than a standard car. ▪ Considers the level of cover provided by the MAIB to be too high leading to higher premiums.
Robert Westley	<ul style="list-style-type: none"> ▪ Considers that charging an individual two premiums for two vehicles to be unfair and premiums should be charged on a per person basis. ▪ Considers that Senior Card Holders should receive a concession.
Mason Pearson	<ul style="list-style-type: none"> ▪ Considers motorcycle premium charges to be unfair, specifically the same charge for all motorcycles above 125cc. ▪ Considers charging should be based on engine power and not engine capacity as is the system for LAMs.
Betty Parssey (Ulysses Club)	<ul style="list-style-type: none"> ▪ Concerned that their members have to pay for increased motorcycle registration costs for their second vehicle (motorcycle).
Taylor Fry Analytics and Actuarial Consulting	<ul style="list-style-type: none"> ▪ Concerns about the criteria used to re-open the pricing order. ▪ Concerns about using surplus solvency revenue to fund cost over runs during the pricing period. ▪ Suggest that the breakeven premium should be use as a criteria for re-opening the pricing order. ▪ Supports premium stability.
MAIB	<ul style="list-style-type: none"> ▪ Concerns about the Regulator's recommendations with respect to target solvency range and risk margin. ▪ Disagrees with the Regulator's assessment of hospital costs. ▪ Support premium stability. ▪ Proposes a different method for premium relativity adjustments. ▪ Concerns about the criteria used to re-open the pricing order. ▪ Concerns about using surplus solvency revenue to fund cost over runs during the pricing period. ▪ Suggest that the breakeven premium should be use as a criteria for re-opening the pricing order. ▪ Does not support investigation of claims frequency trends.

Submission received from	Key Issues
Tasmania Motorcycle Council	<ul style="list-style-type: none"><li data-bbox="587 353 1283 443">▪ Concerns about the higher premiums charged to medium, medium large and large motorcycles relative to other vehicle classes.<li data-bbox="587 450 1283 510">▪ Considers that motorcycles unfairly contribute more to the MAIB scheme whilst being a vulnerable class<li data-bbox="587 517 1283 689">▪ Considers that motorcycle classes should be adjusted to take into account Learner Approved Motorcycle Scheme (LAMS). Specifically: class 4, should be amended to cover machines above 125cc that are registered under LAMS; class 20 be altered to cover non-LAMS motorcycles up to 890cc with machines 890cc and above categorised as class 5.<li data-bbox="587 696 1283 741">▪ Considers that the premium relativity for motorcycles above 125cc should be 1.00.

APPENDIX D: COMPARATIVE PREMIUMS

As noted in Chapter 2, premium comparisons are difficult because of the differing nature of the schemes operating in Australia. Further, it is difficult to accurately match premiums where vehicle classifications differ from state to state. Therefore, care must be taken in interpreting the following information.

The amount of duty applied also varies from jurisdiction to jurisdiction. All premiums below include 10 per cent GST but exclude duty except for NSW premiums which include levies and duty but not GST.

Basis of Risk		TAS From 1/12/2012	VIC ^a From 1/07/2008	SA ^b From 1/07/2012	WA From 1/07/2012	ACT From 1/09/2012	QLD at 23/01/2013	NSW ^c December 2008
Class	Description	\$	\$	\$	\$	\$	\$	\$
1	Motor car	344.00	422.00	512.00	245.01 private use	578.70 private use	328.80	589
	Pensioner	275.00	211.00	512.00	260.09 business use	578.70	328.80	589
2	Light Goods Vehicle	344.00	423.00 (up to 2 tonnes)	543	226.16 private use 240.16 business use	659.60	371.80 (up to 4.5 tonne)	754
3	Heavy Goods Vehicle	543.00	616.00 (Prime movers are 1708.00)	758 (up to 35 tonne) 1961 (>3.5 tonne)	226.16 private use 240.16 business use	2411.60	1379.20 (>4.5 tonne)	1 526 and 3 782 (>16 tonnes)
4	Medium Motorcycle	442.00	370.00	215.00	138.93	116.10 (up to 300cc)	81.60(271.80 with pillion)	265
5	Large Motorcycle	442.00	505.00	358.00 (exceeding 600cc)	138.93	520.80 (over 300cc)	81.60(271.80 with pillion)	412 and 719 (1129 to 1325cc)
6	Taxi or Chauffeured Hire Car	1062.00	2137.00	5 837	1 123.81	8673.80	6316.20	6 304
7	Large Passenger Vehicle ^d	888.00	1395.00 plus 35.00 each seat between 10 and 30 (2137.00 31 and above)	1 239 (up to 35); 2 074 (>35); 6 651 (buses in Adelaide)	1069.41 (eight or more seats excludes not for profit)	4880.60	1250.20 (17 seats +87.00 per additional seat) Discounts for non-commercial buses	7 070
8	Hire / Drive Vehicle ^e	888.00	669.00	835.00	309.09	2313.30	642.20	1 502
9	Caravan, Plant and Machinery (Non Self - Propelled)	45.00	Nil	Nil	11.0	n.a.	Nil	n.a.
10	Heavy	101.00	Nil	Nil	11.0	n.a.	81.60 >4.5	n.a.

Basis of Risk		TAS From 1/12/2012	VIC ^a From 1/07/2008	SA ^b From 1/07/2012	WA From 1/07/2012	ACT From 1/09/2012	QLD at 23/01/2013	NSW ^c December 2008
Class	Description	\$	\$	\$	\$	\$	\$	\$
	Trailer						tonnes	
11	Mobile Crane	363.00	319.00	n.a.	616.56	1446.00	n.a.	1 473
12	Restricted Registration Vehicles, including Farm Motor Cycles	47.00	n.a.	51.00	n.a.	n.a.	162.40	n.a.
13	Plant and Machinery (Self-Propelled)	130.00	319.00	51.00	35.54	810.00	279.60	1 473
14	Motor Trade Plate	363.00	276.00	As per vehicle class	59.24 (90.47 for motorcycle)	173.90	328.80	177
15	Farm Tractor	130.00	71.00	51.00	35.54	810.00	67.60	1 178
16	Medium Passenger Vehicle	543.00	422 for less than 10 seats 596.00 for above 9 seats, both not for commercial use	819.00 (up to 12 seats)	1069.41 (eight or persons more seats excludes not for profit)	688.50	641.20 (10 seats plus 87 per additional seat) Discounts for non-commercial buses	842
17	Small Motorcycle	172.00	71.00 (up to 60cc); 279.00 (60cc-126cc)	128.00 (up to 50cc);	138.93	116.10	81.60 (271.80 with pillion)	106
18	Off Road and Recreational Vehicles	204.00	71.00	n.a.	22.00	n.a.	n.a.	n.a.
19	Short Term Unregistered Vehicle	36.00	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
20	Medium Large Motorcycle	442.00	370.00	323.00 (250cc but not exceeding 660cc)	138.93	528.80	81.60(271.80 with pillion)	342.
21	Vintage Motor Vehicle or Street Rod	34.00	82.00	143.00	22.00	58.30	54.40	n.a.
22	Special Interest Vehicles	111.00	82.00	143.00	22.00	58.30	54.40	n.a.

Source: Various insurers' websites.

- Notes:
1. Victoria has three zones for pricing: High Risk, Medium Risk and Low Risk. For the purposes of comparison the MAIB has previously advised the Regulator that the High Risk premium should be used.
 2. South Australia has two districts for pricing. For purposes of comparison, premiums in District 1 are used.
 3. The Class one premium is based on the simple average of private Metro premiums for all insurers, sourced from the Motor Accidents Authority Greenslip calculator at <http://prices.maa.nsw.gov.au/> on 5 February 2013. All other premiums are calculated based on the Motor Accidents Authority Schedule of Premium Relativities, Effective 1 February 2013.

4. Threshold in Tasmania is more than 16 passengers, while it is 31 passengers in Victoria.
5. Some other jurisdictions have differing premiums depending on the number of seats in the vehicle.

APPENDIX E: PREMIUM RELATIVITIES

The following relativities have been calculated on the basis of premiums quoted in Appendix D. Any comments made in Appendix D should be taken into account when considering these relativities.

No	Class	Premium Relativities Other States and Territories							
		TAS	NSW ^a	VIC	QLD	WA	SA	NT	ACT
1	Motor car	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
	Pensioner	0.80	1.00	0.50	1.00	1.00	1.00	1.00	1.00
2	Light Goods Vehicle	1.00	1.28	1.00	1.08	0.92	1.06	1.00	1.14
3	Heavy Goods Vehicle		2.59						
		1.58	6.42 (>16 tonne)	1.46	4.19	0.92	1.48	1.07	4.17
4	Medium Motorcycle	1.28	0.45	0.88	0.25 to 0.83	0.57	0.42	0.57	0.20
5	Large Motorcycle	1.28	0.70	1.20	0.25 to 0.83	0.57	0.70	1.47	0.90
6	Taxi or Chauffeured Hire Car	3.09	10.70	5.07	19.21	4.59	11.40	2.81	14.99
7	Large Passenger Vehicle			3.31 to 5.07 (9 to 32 seats and above)	3.80 to 7.77 (16 to 32 seats)				
		2.58	12.0			4.36	2.42 to 4.05	2.81	8.43
8	Hire and Drive Vehicle	2.58	2.55	1.59	1.95	1.26	1.63	1.47	4.00
9	Caravan, Plant and Machinery (Non Self-Propelled)	0.13	Nil	Nil	Nil	0.04	Nil	0.13	Nil
10	Heavy Trailer	0.29	Nil	Nil	0.30	0.04	Nil	0.13	Nil
11	Mobile Crane	1.06	2.50	0.76	Nil	2.52	n.a.	0.30	2.50
12	Restricted Registration Vehicles, including Farm Motor Cycles	0.14	n.a.	n.a.	0.49	n.a.	0.10	n.a.	n.a.
13	Plant and Machinery (Self-Propelled)	0.38	2.50	0.76	0.85	0.15	0.10	0.30	1.40
14	Motor Trade Plate	1.06	0.30	0.65	1.00	0.24	n.a.	1.00	0.30
15	Farm Tractor	0.38	2.00	0.17	0.21	0.15	0.10	0.23	1.40
16	Medium Passenger Vehicle	1.58	1.43	1 to 1.41	1.95 to 3.54 (10 to 16 seats)	4.36	1.60	1.00	1.19
17	Small Motorcycle	0.50	0.18	0.17	0.25 to 0.83	0.57	0.25	0.20	0.20
18	Off Road and Recreational Vehicles	0.59	n.a.	0.17	n.a.	0.09	n.a.	n.a.	n.a.
19	Short Term Unregistered Vehicle	0.10	n.a.	n.a.	n.a.	n.a.	n.a.	0.06	n.a.
20	Medium Large Motorcycle	1.28	0.58	0.88	0.25 to 0.83	0.57	0.63	1.47	0.91

No	Class	Premium Relativities Other States and Territories							
		TAS	NSW ^a	VIC	QLD	WA	SA	NT	ACT
21	Vintage Motor Vehicle or Street Rod	0.10	n.a.	0.17	0.17	0.09	0.16	0.09	0.10
22	Special Interest Vehicles	0.32	n.a.	0.17	0.17	0.09	0.16	0.09	0.10

Note: NSW data is based on private Metro premiums sourced from the Motor Accidents Authority Schedule of Premium Relativities, Effective 1 February 2013.

APPENDIX F: VEHICLE CLASSIFICATIONS AND DESCRIPTION

Class	Vehicle	Description
1	Motor Car	A motor vehicle constructed principally for the carriage of persons, including a campervan, and not included in any other class.
2	Light Goods Vehicle	A motor vehicle constructed principally for the carriage of goods, and with a gross vehicle mass not exceeding 4.5 tonnes.
3	Heavy Goods Vehicle	A motor vehicle (including a special purpose vehicle) constructed principally for the carriage of goods, and with a gross vehicle mass exceeding 4.5 tonnes.
4	Medium Motorcycle	A motorcycle with an engine capacity which exceeds 125 cc but does not exceed 250 cc.
5	Large Motorcycle	A motorcycle with an engine capacity which exceeds 700 cc.
6	Taxi or Chauffeured Hire Car	A public passenger vehicle that is used to operate a taxi service or luxury hire car service under the <i>Taxi, Luxury Hire Car and Restricted Hire Vehicle Industries Act 2008</i> .
7	Large Passenger Vehicle	A vehicle with 17 or more seats that is used to operate a passenger transport service under the <i>Passenger Transport Services Act 2011</i> .
8	Hire and Drive Vehicle	A Hire and Drive vehicle used to operate a hire and drive passenger service in this State or in both this State and any other jurisdiction in the Commonwealth.
9	Caravan, Horse Float, Plant and Machinery (Non Self-Propelled)	Any caravan, horse float or plant and machinery with an unladen mass exceeding half a tonne, which is designed to be drawn by a motor vehicle (excluding any trailer).
10	Heavy Trailer	A trailer, the unladen mass of which exceeds half a tonne, and not included in Class 9.
11	Mobile Crane	A mobile crane (excluding a tow truck).
12	Restricted Registration Vehicles, including Farm Motor Cycles	Off-road and restricted registration vehicles not otherwise provided for in Classes 15 or 18, including ride on lawn mowers capable of exceeding 10 kph.
13	Plant and Machinery (Self-Propelled)	A tractor (other than a farm tractor), road roller, motor street flusher, tar sprayer, tar roller, motor eductor, street sweeper, excavator, traction engine, road grader, fork lift truck, motor end loader, traxcavator, trench digger, bulldozer, earth moving machine or any similar kind of vehicle not otherwise specified in this class.
14	Motor Trade Plate	A motor vehicle used under the authority of a trade plate issued under the <i>Vehicle and Traffic Act 1999</i> .

Class	Vehicle	Description
15	Farm Tractor	A tractor used for agricultural purposes only (whether registered or not).
16	Medium Passenger Vehicle	A vehicle, other than a taxi or luxury hire car with no more than 16 seats and used to operate a passenger transport service under the <i>Passenger Transport Services Act 2011</i> .
17	Small Motorcycle	A motorcycle with an engine capacity which does not exceed 125 cc.
18	Off Road and Recreational Vehicles	A trail bike, mini-bike, all terrain vehicle (ATV), dune buggy or any other off-road or recreational vehicle either covered by restricted registration or not required to be registered.
19	Short Term Unregistered Vehicle	A vehicle that is subject to a short-term unregistered vehicle permit.
20	Medium Large Motorcycle	A motorcycle with an engine capacity which exceeds 250 cc but does not exceed 700 cc.
21	Vintage Motor Vehicle or Street Rod	A vehicle that is registered as a vintage motor vehicle or street rod.
22	Special Interest Vehicles	A special interest vehicle as defined under the <i>Vehicle and Traffic (Driver Licensing and Vehicle Registration) Regulations 2000</i> .

Source: MAIB and Government Prices Oversight (MAIB Premiums) Order 2009 and subsequent amendments stemming from the changes in the *Passenger Transport Act 2011* and related legislation

APPENDIX G: ELIGIBILITY CRITERIA FOR A PENSIONER DISCOUNT

The current *Government Prices Oversight (MAIB Premiums) Order 2009* specifies that the pensioner discount of 20 per cent off the maximum premium payable is available to:

- a pensioner;
- a person who has a severe disability;
- a parent or guardian of a person who has a severe disability and has not attained the age of 16 years.

Note: The discount is in respect of one class 1 or class 2 motor vehicle. The restriction of only one discount per pensioner was introduced on 25 August 2008.

'Pensioner' means a person who is:

- the holder of a current health care card issued in accordance with the Social Security Act 1991 of the Commonwealth; or
- the holder of a current pensioner concession card issued in accordance with the Social Security Act 1991 of the Commonwealth or as a fringe benefit under the Veterans' Entitlements Act 1986 of the Commonwealth; or
- the holder of a current Gold Card or White Card issued in accordance with the Veterans' Entitlements Act 1986 of the Commonwealth.