



**INVESTIGATION INTO THE
MOTOR ACCIDENTS
INSURANCE BOARD'S PRICING
POLICIES**

FINAL REPORT

JULY 2017

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GLOSSARY

Term	Meaning within the context of this Report
Accident year	1 July to 30 June (the MAIB uses 'accident year' interchangeably with 'financial year' in its Preliminary Submission)
ACT	Australian Capital Territory (in figures and tables)
APRA	Australian Prudential Regulatory Authority
AWOTE	Average Weekly Ordinary Time Earnings (index prepared by the Australian Bureau of Statistics)
cc	Cubic centimetre (a measure of motor vehicle engine capacity)
Civil Liability Act	<i>Civil Liability Act 2002</i>
CPI	Consumer Price Index
CSO	Community Service Obligation
CTP	Compulsory Third Party
DAM	Decreasing adjustment mechanism (in tables)
ER Act	<i>Economic Regulator Act 2009</i>
ESC	Essential Services Commission (Victoria)
Finity	Finity Consulting Pty Ltd
Funding ratio	Ratio of assets (less non-claim related liabilities, deferred dividends and tax) to outstanding claims and premium liabilities
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	(former) Government Prices Oversight Commission
GST	Goods and Services Tax
GST Act	<i>A New Tax System (Good and Services Tax) Act 1999</i>
HVNL	Heavy Vehicle National Law
ITC	Input tax credit (in tables)
IBNR	Incurred but not reported
ICWA	Insurance Commission of Western Australia
IPMF	Injury Prevention and Management Foundation
LAMS	Learner Approved Motorcycle Scheme
MA	Motor accident
MA Act	<i>Motor Accidents (Liabilities and Compensation) Act 1973</i>
MAC	Motor Accident Commission (South Australia)

Term	Meaning within the context of this Report
MAIB	Motor Accidents Insurance Board
MA Regulations	<i>Motor Accidents (Liabilities and Compensation) Regulations 2010</i>
NDIS	National Disability Insurance Scheme
NHVR	National Heavy Vehicle Regulator
NIIS	National Injury Insurance Scheme
NSW	New South Wales (in figures and tables)
NT	Northern Territory (in figures and tables)
Preliminary Submission	<i>Motor Accidents Insurance Board, Tasmanian Economic Regulator Submission 2017, 20 February 2017</i>
Premium year	1 December to 30 November
Pricing period	The period covered by the premium order to be made following the Minister's consideration of the recommendations contained in this report
QLD	Queensland (in figures and tables)
Regulator	The Tasmanian Economic Regulator
RSAC	Road Safety Advisory Council
RSTF	Road Safety Task Force
SA	South Australia (in figures and tables)
SES	State Emergency Service
SIRA	State Insurance Regulatory Authority (New South Wales)
State Growth	Department of State Growth
Superimposed inflation	Growth in claims costs above AWOTE
TAC	Transport Accident Commission (Victoria)
TAS	Tasmania (in figures and tables)
Taxis Act	<i>Taxi and Hire Vehicles Industries Act 2008</i>
TFS	Tasmania Fire Service
TMC	Tasmanian Motorcycle Council
TTC	Tasmanian Taxi Council
VIC	Victoria (in figures and tables)
WA	Western Australia (in figures and tables)

EXECUTIVE SUMMARY

In December 2016, the Treasurer and Minister for Infrastructure requested that the Tasmanian Economic Regulator (the Regulator) conduct an investigation into the Motor Accidents Insurance Board's (MAIB) pricing policies with respect to motor accident personal injury insurance, and recommend maximum premiums for the four years beginning 1 December 2017.

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 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.

The common law benefits provide for additional compensation following establishment of liability. The common law system awards damages generally for loss of earnings, but specifically excludes payments for future care of 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.

This Report outlines the Regulator's recommendations on the maximum premiums to be charged by the MAIB for the next four years (1 December 2017 to 30 November 2021 inclusive). The final decision on the level of maximum premiums rests with the Tasmanian Government and will be set out in an Order tabled before both Houses of Parliament.

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

- ❑ the costs of providing the service; and
- ❑ 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 considers the break-even premium, the average premium, the MAIB's financial circumstances, and the vehicle relativities and maximum premiums when investigating the MAIB's pricing policies.

The break-even premium is that amount required to cover the costs of the claims and administration of the scheme after taking account of investment returns on premiums.

To assess the break-even premium, the Regulator reviewed the MAIB's estimates of claims size and frequency for scheduled benefit, common law and future care claims as well as the MAIB's forecast of its general and administrative costs and expenses relating to road safety programs.

Based on its review, the Regulator recommends a break-even premium of \$222.86.

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

The average investment return over the past four years has been 10.3 per cent per annum. This recent returns experience is considerably higher than long-term returns. Since 2000, the MAIB's real return on investments has been close to the three per cent target.

For this investigation, the Regulator engaged the actuary consulting firm Finity Consulting Pty Ltd (Finity) to review the MAIB's financial targets (such as solvency and risk margins), the MAIB's insurance profit margin and the superimposed inflation and investment return assumptions in the MAIB's premium pricing. Finity's report notes that it is satisfied that the MAIB's financial targets, profit margins, approach to superimposed inflation and investment returns are reasonable.

Based on Finity's advice and its own analysis, the Regulator accepts the MAIB's financial targets, profit margin and investment return assumptions.

The average premium is determined on the basis of a profit margin, known as insurance profit, plus the break-even premium. The Regulator has considered the profit margin on two levels; normal profit and revenue shortfall.

Based on the analysis undertaken by Finity, the Regulator accepts the 10 per cent profit margin proposed by the MAIB. In accordance with past practice, the Regulator also agrees to provide the MAIB with a one per cent allowance to cover expected revenue shortfalls between the MAIB's actual premium revenue and the forecast revenue relied on for the purposes of this investigation.

Taking into account the MAIB's proposed profit margin, revenue shortfall allowance, benchmark levels of commercial profit, and forecast financial impacts, the Regulator recommends a maximum average premium, effective from 1 December 2017, of \$248.91.

In 2016, the Tasmanian Government amended section 91E of the *Taxi and Hire Vehicles Industries Act 2008* (Taxis Act) to allow vehicles to be used to provide ride-sourcing services. This amendment became effective on 7 November 2016 and ride-sourcing services have been permitted in Tasmania since that date.

In its Preliminary Submission, the MAIB considered three options regarding premiums for ride-sourcing vehicles and recommended not creating a new premium class for ride-sourcing vehicles for the next four years. The Regulator received submissions from Uber and the Tasmanian Taxi Council in relation to this issue.

The Regulator has considered these submissions and has assessed the three options proposed by the MAIB. As a result, the Regulator recommends that a new vehicle class be created for ride-sourcing vehicles. The Regulator also recommends that, initially, this vehicle class be assigned the same relativity as Class 1 (ie 1.00) and owners of vehicles in this class be liable to pay the same maximum premium payable on private motor cars.

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

In its Preliminary Submission the MAIB has proposed changes to the relativities of Classes 4, 5, 6, 14, 15, 16, 17, 18, 20, and 22.

The claims experience for these classes of vehicles is not reflected in the current premiums, and costs are, therefore, not equitably spread across all vehicle classes. The Regulator is of the view that there are not any benefits in retaining the identified cross-subsidies for these classes, or at least not at the level identified in the current premium relativities. As with the 2013 Investigation, the Regulator recommends spreading the impact of the relativity changes over the next four years.

Given the relatively recent commencement of ride-sourcing services in Tasmania and the consequential relatively small number of vehicles used for this purpose at present, there is currently insufficient data available to enable the risk associated with vehicles used for ride-sourcing purposes to be assessed as part of the premium setting process.

The Regulator notes that if sufficient data become available during the upcoming pricing period, the MAIB may bring this fact to the Minister's attention with a view to the pricing order being reopened if necessary.

Summary of major changes

Compared to the current situation, the Regulator's recommendations, as outlined in this Report, provide for the following major changes:

- creation of a new Class for vehicles used to provide ride-sourcing services;
- ride-sourcing vehicles having the same relativity and maximum premium as Class 1 Motor Cars; and
- for the period 1 December 2017 to 30 November 2018, the following changes to the maximum premiums (including GST and duty) for the listed vehicle classes:

Class	Vehicle Description	Present Premium	Recommended Maximum Premium from 1 Dec 2017
4	Medium Motorcycle	465	478
5	Large Motorcycle	465	478
6	Taxi or Luxury Hire Car	1 021	1 028
14	Motor Trade Plate	331	327
15	Farm Tractor	131	125
16	Medium Public Passenger Vehicle	415	408
17	Small Motorcycle	167	174
18	Off-road and Recreational Vehicle	242	257
20	Medium-Large Motorcycle	465	478
22	Special Interest Vehicle	115	109

The Regulator also recommends that, from 1 December 2017, premiums for all other vehicle classes remain unchanged from the premiums that have applied since 1 December 2016.

SUMMARY OF RECOMMENDATIONS

In relation to the MAIB's break-even premium, the Regulator recommends that:

- ❑ the Break-even Premium be set at \$222.86.

In relation to the MAIB's average premium, the Regulator recommends that:

- ❑ the MAIB be allowed a profit margin of 10 per cent in its premiums;
- ❑ the MAIB be granted an additional one per cent allowance in its premiums to cover revenue shortfalls;
- ❑ the Maximum Average Premium be set at \$248.91;
- ❑ premiums not be indexed in the 2017-18 premium year; and
- ❑ in each of the 2018-19, 2019-20 and 2020-21 premium years, premiums be indexed by a maximum of Average Weekly Ordinary Time Earnings.

In relation to ride-sourcing services, the Regulator recommends that:

- ❑ a new vehicle class be created for ride-sourcing vehicles, with an initial premium relativity of 1.00 and the same recommended maximum premium as Class 1 vehicles.

In relation to premium relativities and maximum premiums, the Regulator recommends that:

- ❑ the following changes be made to premium relativities:
 - Classes 4, 5 and 20 Motorcycles from 1.51 to 1.70;
 - Class 6 Taxi or Luxury Hire Car from 3.40 to 3.50;
 - Class 14 Motor Trade Plate from 1.06 to 1.00;
 - Class 15 Farm Tractor from 0.38 to 0.30;
 - Class 16 Medium Public Passenger Vehicle from 1.34 to 1.25;
 - Class 17 Small Motorcycle from 0.50 to 0.60;
 - Class 18 Off-road and Recreational Vehicle from 0.76 to 1.00;
 - Class 22 Special Interest Vehicle from 0.32 to 0.25;
- ❑ no changes be made to premium relativities for remaining vehicle classes;
- ❑ proposed relativity changes be phased in over a four year period;
- ❑ the MAIB review existing motorcycle premium class descriptions with reference to the Learner Approved Motorcycle Scheme and engine capacities;

- the MAIB gather and review accident/claims data to determine whether taxis and luxury hire cars could be assigned to separate classes in future;
- current surcharges on premiums for periodic registrations to continue unchanged¹; and
- the MAIB continue to review the financial implications of increases in the number of discount customers.

¹ Maximum half-yearly premiums to be equal to one half of the maximum annual premiums plus three per cent rounded to the nearest five cents. Maximum quarterly premiums to be equal to one quarter of the maximum annual premiums plus six per cent rounded to the nearest five cents.

I INTRODUCTION

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

This is the seventh pricing investigation into the MAIB's pricing policies. This is the second investigation undertaken by the Regulator with five having been undertaken by the Regulator's predecessor, the Government Prices Oversight Commission (GPOC).

I.1 Terms of Reference

On 12 December 2016, the Treasurer and the Minister for Infrastructure jointly requested the Regulator to conduct an investigation into the MAIB's pricing policies.

The Terms of Reference for this investigation are reproduced in full in Appendix A1. Essentially, the Regulator is required to:

...investigate the prices levied on motorists to fund the current provision of motor accident personal injury insurance for persons injured in motor vehicle accidents involving Tasmanian-registered vehicles, and persons injured in accidents in Tasmania involving interstate motor vehicles who require daily care.

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

1. the scope and intent of the MA Act;
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. The Regulator should especially examine subsidies as they relate to:
 - a) class 6 and class 16 in Schedule 1 of the current Pricing Order, the *Economic Regulator (MAIB Premiums) Pricing Order 2013*; and
 - b) motorcycle premium classes, including the potential to rationalise the existing classes;
3. an appropriate mechanism to remove these cross-subsidies should it be considered desirable;
4. the appropriateness of the MAIB using current insurance industry prudential requirements as a benchmark to measure long term sustainability;
5. the provision of funding by the MAIB to the following:
 - a) the Road Safety Advisory Council (RSAC); and
 - b) recognised groups through the Injury Prevention and Management Foundation (IPMF);
6. the appropriateness of current claim liability valuations;

7. the loading required on periodic premiums to ensure that there is no net impact on MAIB's revenue;
8. the future classification of vehicles that are used to provide commercial ride-sourcing services, including the appropriateness of creating a new premiums class for such vehicles; and
9. whether the current set of vehicle classes is appropriate given the actuarial estimates of claims made to the MAIB.

Appendix A2 sets out where in this Report the Regulator has addressed the requirements of the Terms of Reference. Appendix O of the MAIB's Preliminary Submission outlines where in its submission the MAIB has addressed the requirements of the Terms of Reference.

The Final Report provided by the Regulator under section 35 of the ER Act must contain recommendations in relation to the appropriate maximum prices (as defined in section 4 of the ER Act) to be charged by the MAIB for each category of vehicle. The MAIB provides motor accident (MA) personal injury insurance for persons injured in motor vehicle accidents involving Tasmanian-registered vehicles, and persons who require daily care due to being injured in accidents involving interstate motor vehicles in Tasmania.

Under the Terms of Reference, the Regulator must provide a copy of the Final Report to the Treasurer and Portfolio Minister (in this instance the Minister for Infrastructure) by 31 July 2017.

The final decision on the level of maximum premiums rests with the Tasmanian Government and will be set out in an Order tabled before both Houses of Parliament. The Regulator's role in relation to the MAIB is recommendatory rather than determinative in nature, ie the Regulator makes a recommendation to the Government, which then makes a decision as to the appropriate level of premiums to be levied for each vehicle class.

Within 90 days of receiving the Final Report, the Portfolio Minister must make a Premiums Order taking into account the Regulator's recommendations. The MAIB will then be required to set its premiums in accordance with the Premiums Order. The Premiums Order takes effect on the 61st day after notification of its making appears in the *Tasmanian Government Gazette*. The current *Economic Regulator (MAIB Premiums) Order 2013* is due to expire on 30 November 2017.

I.2 Approach to the investigation

Previous MAIB investigations were conducted in 1997, 2000, 2003, 2006, 2009 and 2013. Reports and related submissions for the current and 2013 investigations are available on the Office of the Tasmanian Economic Regulator's (OTTER) website: www.economicregulator.tas.gov.au. Documents relating to previous investigations are available on the former GPOC website: www.gpoc.tas.gov.au.

The Regulator's approach to this investigation, as in previous investigations into the MAIB's pricing policies, has been to:

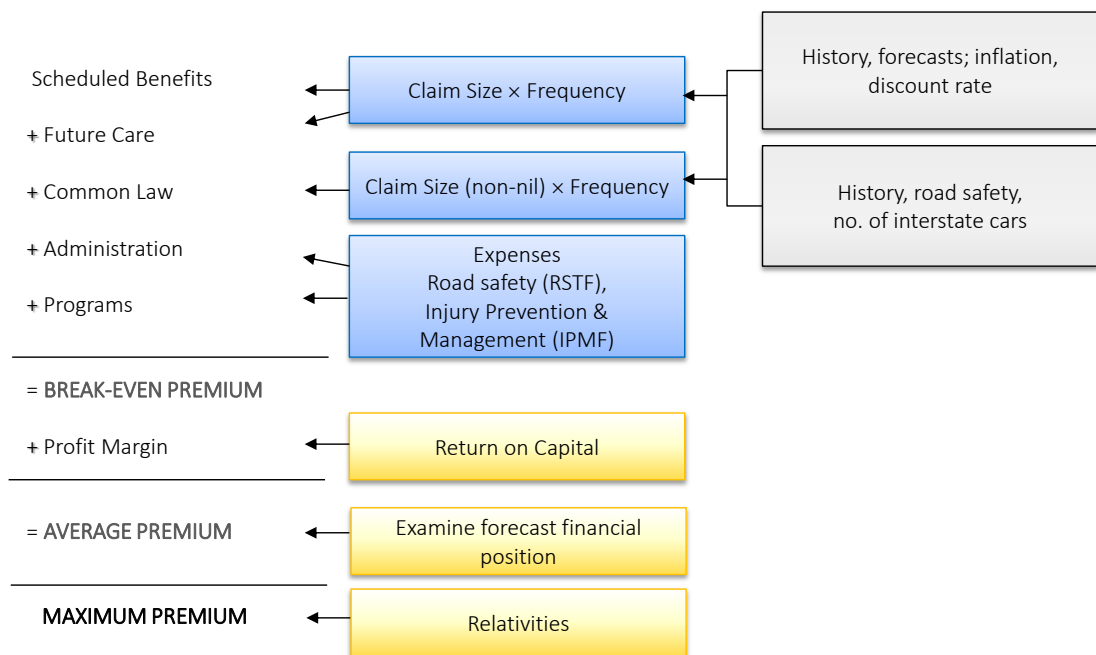
- determine the break-even premium by estimating the amount required to meet the expected cost of claims based on an actuarial assessment of likely claims experience, estimates of administrative costs, and estimates of forecast returns from investments;

- ❑ 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 for the vehicle classes (ie the weighting in proportion to the standard class of passenger vehicle, Class 1 Motor Car).

The Regulator has also engaged actuarial consultants Finity to assist with the investigation.

Figure 1.1 provides an overview of the approach to calculating the Break-Even Premium, the Average Premium and the Maximum Premium.

Figure 1.1 Calculating the Break-Even Premium, the Average Premium and the Maximum Premium



1.3 Structure of this report

The Regulator has produced this Report after taking into account the MAIB’s Preliminary Submission and Finity’s findings, as well as submissions received in response to the MAIB’s Preliminary Submission, the Terms of Reference and the Regulator’s Draft Report released on 23 May 2017.

The Report is structured as follows:

- ❑ Chapter 2 provides an overview of MA insurance in Australia, the MAIB scheme, and changes since the 2013 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 addresses the classification of vehicles used to provide ride-sourcing services; and
- ❑ Chapter 7 considers the current premium relativities between vehicles classes and the need for adjustment based on recent claims experience.

2 MOTOR ACCIDENTS INSURANCE IN AUSTRALIA

2.1 Introduction

Each Australian state and territory has a MA insurance scheme (sometimes referred to as Compulsory Third Party (CTP) or 'Green Slip' insurance). These schemes vary in the level and type of benefits they offer and the eligibility of injured parties to receive those benefits. 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. These schemes are based on the premise that it is in the community's interest to have injured persons appropriately treated, helping them to recover from their injuries without putting an undue burden on individual families or taxpayers.
- (2) **'Common law' schemes** – benefits are provided following the establishment of liability or 'fault'. These schemes operate to provide an opportunity for injured parties to bring actions based on negligence against vehicle owners/drivers assessed as being at 'fault'.
- (3) **'Full coverage' schemes** – a combination of common law and no-fault benefits is provided. Under these schemes, 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 on common law grounds for damages arising from the accident.

Table 2.1 provides a comparison of the various schemes operating across Australia.

Table 2.1 Comparison of Australian CTP schemes

Injury type	TAS		VIC		NSW		QLD		SA		WA		ACT		NT	
	All	NIIS	All	NIIS	All	NIIS	All	NIIS	All	NIIS	All	NIIS	All	NIIS	All	NIIS
Type of Insurer																
- Public sector	✓	✓	✓	✓		✓		✓		✓	✓	✓		✓	✓	✓
- Private sector					✓		✓		✓				✓			
Benefits																
- No fault	✓	✓	✓	✓		✓		✓		✓		✓		✓	✓	✓
- Common law	✓		✓		✓		✓	✓	✓		✓	✓	✓			
Government involvement in pricing	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓

Source: MAIB (2017) Preliminary Submission, page 9 (Table 3.2).

The main points to note in reference to Table 2.1 are:

- ❑ The compulsory nature of the insurance combined with the importance of remaining fair and affordable means that there is government involvement in pricing across all jurisdictions.
- ❑ Private sector insurers generally provide only common law benefits. This reduces their exposure to paying benefits over a very long time horizon as often occurs with no-fault benefits. In New South Wales there are limited no-fault benefits of up to \$5 000 but they represents only a small proportion of overall CTP costs and, therefore, have not been included in the table.
- ❑ All medical and support costs for catastrophic injuries are covered by the public sector on a no-fault basis under the National Injury Insurance Scheme (NIIS). This is because the nature of the services provided more closely resembles disability support rather than traditional insurance. In Queensland and Western Australia some catastrophically injured claimants have access to common law for their care and support needs depending on their level of fault.²

Appendix D provides a summary of comparative premiums.

2.2 The MAIB scheme

As noted in Table 2.1 above, the MAIB provides both no-fault and common law benefits to persons who suffer personal injury as the result of an accident involving a motor vehicle in Tasmania, or an accident involving a Tasmanian registered motor vehicle interstate.³

The no-fault benefits provided by the scheme cover the costs of future care, medical, hospital and rehabilitation treatment; a disability allowance to compensate lost earnings; and death and funeral benefits. The common law benefits provide for additional compensation following establishment of liability against a third party. The common law system provides for awards of damages in respect of loss of earnings, pain and suffering, future medical costs and legal costs. However, the MA Act specifically excludes common law payments for ongoing future care.⁴

For the most part common law damages are unlimited, with 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.⁵

2.2.1 Interaction between no-fault and common law compensation

There is often a period of several years between when an accident occurs and when a common law settlement is made. In the meantime, no-fault compensation is available subject to

² MAIB (2017) Preliminary Submission, page 9.

³ Section 23(2B) of the MA Act defines the circumstances that give rise to injuries resulting from a motor vehicle accident.

⁴ Section 27A of the MA Act.

⁵ 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.

legislative limitations. Payment of common law damages is by way of a lump sum settlement following which entitlements to no-fault compensation cease, except for future care benefits which may continue to be paid.⁶

2.3 Legal framework

2.3.1 *Motor Accidents (Liabilities and Compensation) Act 1973*

The MA Act provides 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 Tasmanian Government established the MAIB in 1974 to administer the MA Act.

Changes to the MA Act and Regulations since 2013 are discussed in Section 2.4.

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 any wholly owned Government businesses that have not been corporatised under the *Corporations Act 2001*.

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 provides 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.

Section 7(1) of the GBE Act states that:

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

⁶ MAIB (2017) Preliminary Submission, page 49.

- (c) to perform any other objectives specified in the Portfolio Act.

As part of the governance arrangements under the Act, the Portfolio Minister and Treasurer must jointly provide a Ministerial Charter to each Government Business Enterprise (GBE). Among other things, the Ministerial Charter sets out the core business activities of 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 therefore is the Portfolio Minister in respect of the MAIB for the purposes of the GBE Act.

Part 11 of the GBE Act covers the determination and payment of dividends. Chapter 5 further discusses the MAIB's obligations under the GBE Act.

2.3.3 Economic Regulator Act 2009

The ER Act established the Regulator to provide, among other things, independent pricing oversight of the MAIB's pricing policies. This was previously the role of the GPOC.

Maximum MAIB premiums for the four years commencing 1 December 2013 were set after the Government's consideration of the Regulator's 2013 Investigation Report.

The ER Act was amended in 2015 to restructure the Regulator from a three-person board to a single person. None of the other changes to the ER Act at that time materially affect the MAIB.

2.3.4 Civil Liability Act 2002

The *Civil Liability Act 2002* (Civil Liability Act), which came into effect on 1 January 2003, regulates civil claims for personal injury, 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 an injured party's intoxication contributed to the cause of their injury. 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 present a convincing case for a lower reduction. 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 per cent to five per cent. In general, this change has served to increase the average size of damages awarded under the Civil Liability Act.

2.3.5 Other Requirements

2.3.5.1 Regulations

The *Motor Accidents (Liabilities and Compensation) Regulations 2010* (MA Regulations) set out various requirements for the recording of data, the provision of certificates and the scheduled benefits payable by the MAIB. The schedules include: the types of treatment payable as medical benefits; the maximum payable funeral benefits; the value of death benefits; and the limitations on payment of medical or counselling benefits.

2.3.5.2 APRA prudential requirements

The Australian Prudential Regulatory Authority (APRA) sets minimum prudential requirements for privately owned insurance providers. The MAIB is not obligated to follow APRA's requirements as it is a publicly owned company. While the APRA framework provides a useful comparison point for publicly owned insurers, the MAIB considers that, being a compulsory monopoly insurer, adopting APRA's framework would not bring any additional benefits to the company and may require it to increase its minimum target funding level.⁷

As required 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 4.

2.4 Changes in the MAIB's operating environment since 2013

The MAIB's Preliminary Submission notes that, since the 2013 Investigation, there have been few major changes in its operating environment.

The past four years has seen: the implementation of the National Injury Insurance Scheme; relevant Fair Work Australia (FWA) decisions; changes to hospital bed day rates; and the commencement of a new National Heavy Vehicle Regulator (NHVR). This has reduced the uncertainty relating to those matters that confronted the MAIB in 2013 as part of the previous investigation.⁸

2.4.1 Changes to the Motor Accidents (Liabilities and Compensation) Act 1973 and Motor Accidents (Liabilities and Compensation) Regulations 2010

Aside from the indexation of benefits payable, there has been only one material amendment to the MA Act and Regulations. From 19 November 2013, the MA Act was changed to allow otherwise uninsured catastrophically injured non-Tasmanians who are injured in a non-Tasmanian motor vehicle while in Tasmania to claim benefits from the MAIB if they otherwise qualify for daily care.

2.4.2 Changes to the Taxi and Hire Vehicles Industries Act 2008

In 2012, Uber began offering a new approach to providing transport services. Since then, Uber and other ride-sourcing operators have taken on an increasingly prominent role in the passenger transport sector. Many jurisdictions are still finalising their respective positions on the regulation of the ride-sourcing industry and the appropriate premiums that operators should pay.

In 2016, the Tasmanian Government amended section 91E of the Taxis Act to allow motorists to use a vehicle to provide a ride-sourcing service. This amendment also had the effect of classifying ride-sourcing vehicles as Class 1 vehicles.

⁷ MAIB (2017) Preliminary Submission, page 32.

⁸ *ibid*, page 8.

Options for potential changes to the treatment of ride-sourcing vehicles during and/or after the upcoming pricing period are discussed in Chapter 6.

2.4.3 Autonomous vehicle testing and development

The current and future development of autonomous (driverless) vehicles presents a technological challenge that the MAIB's insurance scheme will need to manage in the future. Tasmania does not currently have any autonomous vehicle trial sites so this is not an issue for the MAIB at present. However, if testing did begin in Tasmania, or if a Tasmanian registered vehicle was involved in an accident with an autonomous vehicle in another jurisdiction, questions of liability would be raised if an injured party sought common law damages.

2.4.4 Update on issues raised by MAIB during the 2013 Investigation⁹

2.4.4.1 National Injury Insurance Scheme

The introduction of the NIIS has had little overall impact on the MAIB's operations. The MAIB's existing entitlements meant that, in most cases, Tasmania already met the minimum benchmarks required for motor injuries under the NIIS. In other states, such as Queensland, South Australia and Western Australia, new schemes have been established to provide support for catastrophically injured motorists. Since 1 July 2016, all states and territories have universal no-fault support for the care and treatment needs of catastrophically injured motorists.

As noted in Section 2.4.1 above, a NIIS inspired amendment to the MA Act in 2013 resulted in a minor extension to the circumstances in which the MAIB scheme covers parties injured in motor vehicle accidents. However, several exclusions remain which means that the MAIB scheme does not cover all parties catastrophically injured in motor vehicle accidents.

2.4.4.2 National Heavy Vehicle Regulator

The NHVR administers one set of laws for heavy vehicles under the Heavy Vehicle National Law (HVNL). The NHVR's primary role is to deliver a comprehensive range of services under a consistent regulatory framework. The national law commenced on 10 February 2014 and applies in the Australian Capital Territory, New South Wales, Queensland, South Australia, Tasmania and Victoria.

The NHVR is responsible for:

- ❑ National Heavy Vehicle Accreditation Scheme management and accreditations;
- ❑ Performance-Based Standards Scheme vehicle design and access approvals;
- ❑ heavy vehicle access permit applications;
- ❑ heavy vehicle standards modifications and exemption permits;
- ❑ a national driver work diary and risk classification system for advanced fatigue management;

⁹ MAIB (2017) Preliminary Submission, page 45.

- ❑ one set of national notices;
- ❑ one set of national fees for NHVR services; and
- ❑ one set of national penalties.

At this stage there remains no proposal to combine the current MA insurance arrangements for heavy vehicles across Australia into a unified system. However, the timing and mechanism for the payment of premiums is being debated and may change in the future. One possibility is that the jurisdiction of a heavy vehicle's MA insurance will not change until the next insurance renewal, even if during the intervening period the jurisdiction in which the vehicle is registered changes.

2.5 Comparison with other schemes

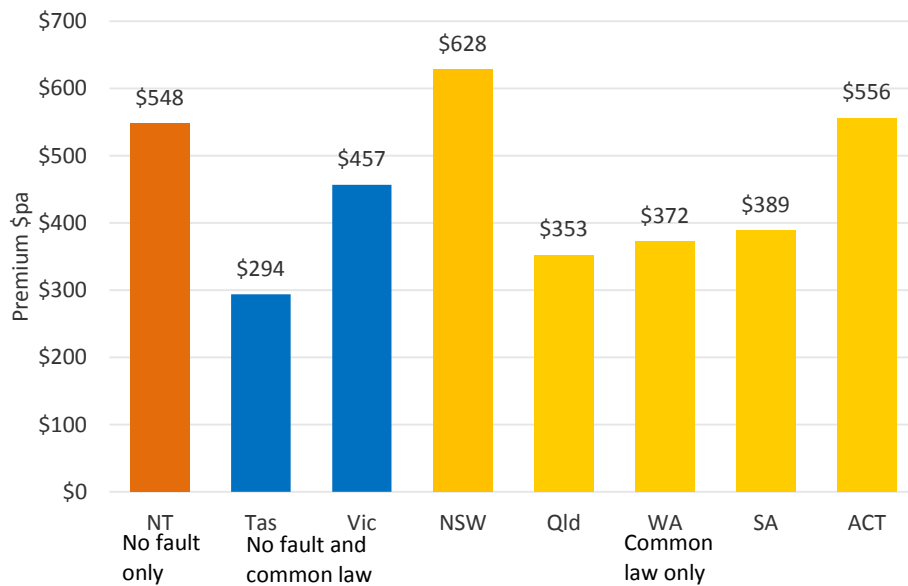
A direct comparison of premiums between the various MA insurance schemes across Australia is difficult. As described in Section 2.1, there are three general classes of schemes providing benefits to persons injured in motor vehicle accidents. Consequently premiums, which reflect the level and type of benefits payable, vary from jurisdiction to jurisdiction.

Another source of difference is in the administration of the schemes. In New South Wales, Queensland, South Australia and the Australian Capital Territory, motorists are able to choose an insurer from a limited pool. In New South Wales, factors such as driver history and age play a significant role in determining the premium offered by these insurers. This means that the 'average' premium is not readily calculable.¹⁰

Research by the MAIB and the Regulator suggests that, even accounting for these differences, Tasmanian premiums are the lowest in Australia. Figure 2.1 compares the 2016-17 Tasmanian Class 1 premium prices with other Australian MA schemes. This comparison shows that during 2016-17, Tasmania had the lowest premiums of any Australian jurisdiction.

¹⁰ There are other differences between the schemes, including the use of premiums to recover different costs. For example, Queensland premiums include a Hospital and Emergency Services Levy. In some states, premiums vary between geographic locations. For example, there are three premium regions in Victoria, two in South Australia and five in New South Wales.

Figure 2.1 Comparison of Class 1 Motor Car premiums across Australia



Source: Adapted from the MAIB (2017) Preliminary Submission, page 9 and based on information on CTP scheme websites.

Figure 2.2 shows the change in premium size for Class 1 Motor Car in all Australian jurisdictions over the past four years.¹¹

As reflected in Figure 2.2 Tasmania's premiums for Class 1 vehicles are not only the lowest in the country but have also had a large reduction in recent years without any associated reduction in benefits. The reduction in South Australia's premiums over the same period is largely due to two factors:

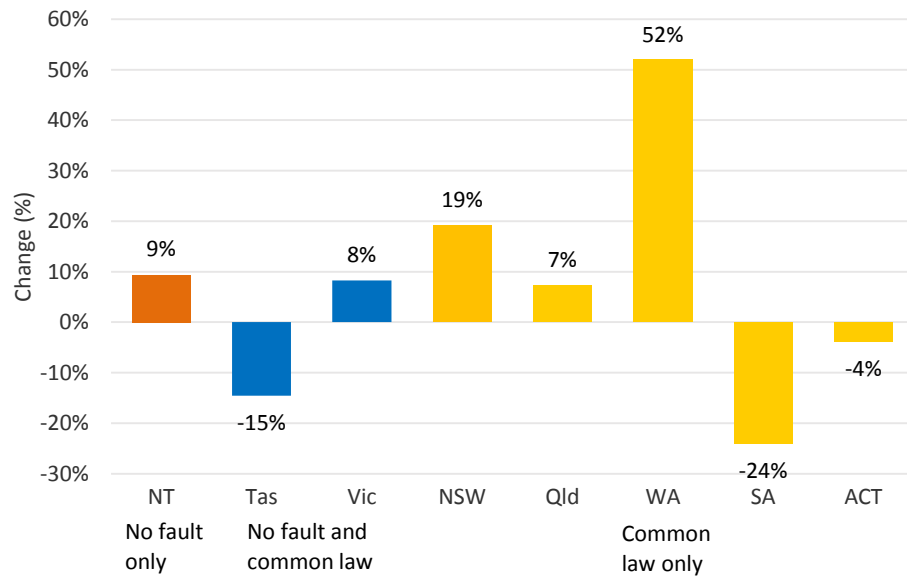
- ❑ non-consideration (for the purposes of this comparison) of the South Australian Lifetime Support Levy, which adds an average of \$102.54 to CTP premiums in South Australia; and
- ❑ changes in the benefits available and access to the scheme, which occurred as part of reforms in 2013.

The increases in Queensland and Western Australia's premiums are largely due to their new catastrophic injury schemes, while the increase in New South Wales' premiums is due to higher claim frequencies, which led to a recent scheme review.¹²

¹¹ Four year comparison covers years 2012-13 to 2016-17 for all jurisdictions.

¹² MAIB (2017) Preliminary Submission, page 10 and Appendix E.3.

Figure 2.2 Change in average Class 1 premiums over the past four years



Source: Adapted from the MAIB (2017) Preliminary Submission, page 9 and based on information on CTP scheme websites.

3 BREAK-EVEN PREMIUM

3.1 Introduction

In its Preliminary Submission, the MAIB states 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.¹³

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.¹⁴ 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 operating the business; and
- ❑ a target profit.

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 required additional returns 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

¹³ MAIB (2017) Preliminary Submission, page 38.

¹⁴ In the public sector, to the extent that any initial capital was provided, the situation is the same.

premium is the sum of the break-even premium and the profit margin (the calculation of the Average Premium is discussed in Chapter 5).

This chapter discusses the MAIB's costs and the cost drivers that underpin the calculation of the break-even premium. The chapter also presents the MAIB's proposed break-even premium, and the Regulator's conclusions and recommendations in relation to the break-even premium.

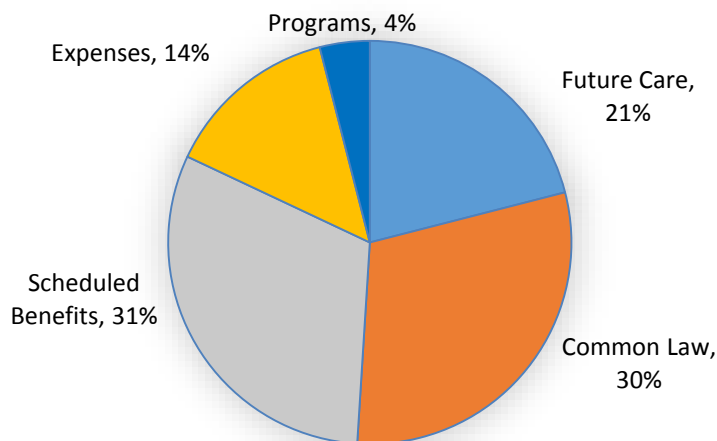
3.2 Cost categories

The MAIB's costs fall into the following five broad categories:

- ❑ common law claims cost;
- ❑ scheduled benefit claims cost;
- ❑ future care claims cost;
- ❑ general expenses (including administration and reinsurance expenses and collection fees); and
- ❑ program/accident prevention¹⁵ costs.

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

Figure 3.1 Components of the break-even premium



Source: MAIB (2017) Preliminary Submission, page 20.

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 82 per cent. The costs associated with accident prevention programs are relatively small, making up only about four per cent of total costs. Since the 2013 Investigation, both Scheduled Benefits and Common Law costs have

¹⁵ Road Safety Task Force as part of the new Road Safety Advisory Council, Injury Prevention Management Foundation and the Tasmanian Motorcycle Safety Strategy.

increased as a proportion of the break-even premium largely as a result of increases in the average cost of claims.

3.3 Cost drivers

The expected cost of claims are dependent upon assumptions regarding the expected claims frequency, the average claim size, claims inflation, superimposed inflation and investment returns.

Estimates of the number of registered vehicles determine the claims costs on a per vehicle basis.

3.3.1 Claims frequency

The MAIB estimates the number of claims it expects to receive each year for the three benefit categories:

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

These estimates are then divided by MAIB estimates of the number of vehicles to determine the expected 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.

The claim frequency for Scheduled Benefits, Common Law and non-nil damages, and Future Care claims are analysed in detail in Sections 3.4.1, 3.5.1, 3.5.2 and 3.6.1 respectively.

3.3.2 Claims 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 AWOTE.

The claim size for Scheduled Benefits, Common Law and Future Care claims are analysed in detail in Sections 3.4.2, 3.5.3 and 3.6.2 respectively.

3.3.3 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 long-term AWOTE of four per cent per annum (previously 3.6 per cent), based on advice from its consulting actuary and its analysis of independent economic forecasts.

Finity was of the view that the MAIB's assumed long-term AWOTE of four per cent was not unreasonable.

3.3.3.1 Claims inflation – Regulator's conclusions

In line with decisions in previous investigations, and after assessing the information presented in the MAIB's Preliminary Submission and noting Finity's comments, the Regulator accepts the MAIB's proposed use of long-term AWOTE of four per cent to estimate claims inflation.

3.3.4 Superimposed inflation

When growth in claims costs outstrips 'normal' claims inflation as measured by AWOTE, the amount above AWOTE is termed superimposed inflation. Finity's Report defines superimposed inflation as:

- ❑ the tendency for benefits for a given injury to increase faster than a suitable standard measure of claims inflation (such as Australian AWOTE in the context of MAIB); or
- ❑ the increase in the total cost of compensation that has not been explicitly provided by the actuarial model(s).¹⁶

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 proposed break-even premium.¹⁷

The assumed rates of superimposed inflation in the MAIB's calculation of its proposed break-even premium are as follows:

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

The rates proposed for scheduled benefits and future care are consistent with those used in previous investigations, while the proposed rate for common law claims costs has been increased from 0.75 per cent to 1.5 per cent. This change followed the decision in Mercer v Allianz Australia Insurance Limited [2013] TASSC 35, which indicated that general damages awards in Tasmania were significantly lower than in other Australian jurisdictions.

Combined with the MAIB's assumed long-term AWOTE of four per cent, the MAIB's proposed allowance for superimposed inflation results in the MAIB proposing the following rates of claims escalation for each category:

- ❑ scheduled benefits: 5.5 per cent per annum;
- ❑ common law: 5.5 per cent per annum; and

¹⁶ Finity (2017) *Motor Accidents Insurance Board Pricing Investigation 2017* report prepared for the Tasmanian Economic Regulator, page 26.

¹⁷ MAIB (2017) Preliminary Submission, page 59.

- ❑ future care: 4.0 per cent per annum.

In its report to the Regulator, Finity considered that the MAIB's superimposed inflation assumptions are consistent with the MAIB's claims experience and in line with ranges that Finity has observed in other jurisdictions. Finity was therefore satisfied that the assumptions are reasonable. Finity did note that the future care rate is lower than what has been observed in other jurisdictions, but that it was consistent with the MAIB's own experiences. Finity also noted that the MAIB has made additional allowance for the ongoing implementation of the FWA changes that commenced in 2012.

3.3.4.1 Superimposed inflation – Regulator's conclusions

Based on Finity's advice and noting the decision in the Mercer case, the Regulator accepts the proposals in the MAIB's Preliminary Submission in relation to superimposed inflation.

3.3.5 Investment returns and real rate of return

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 three per cent per annum. This is unchanged from the rate of return assumed for the 2013 Investigation.

In its Preliminary Submission, the MAIB considered that an average margin (above AWOTE) of three per cent per annum is appropriate given current and forecast economic conditions. The MAIB's investment consultant has advised that the MAIB's current investment strategy has an expected real return of 3.1 per cent per annum over a 15 year period, although there is a risk that bond yields could remain lower for longer, which could reduce real returns by approximately 0.5 per cent per annum. In order to achieve the three per cent real return, the MAIB has decided to adopt an investment strategy comprising 65 per cent growth assets and 35 per cent defensive assets.¹⁸

With regard to investment returns and the real rate of return, the Regulator engaged Finity to review the MAIB's proposals.

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. These are presented in Table 3.1 below. Table 3.1 shows all three

¹⁸ MAIB (2017) Preliminary Submission, page 16.

jurisdictions are generally targeting similar real rates of return above wage inflation (although Victoria's is slightly higher than the other jurisdictions) and total target investment rates, while all three jurisdictions have similar growth asset proportions.

Table 3.1 Investment return assumptions of other relevant schemes

CTP Schemes	Inflation assumption	Real rate of return above AWOTE/CPI	Long-term assumed investment rate ^{Note 1}	Growth asset proportion
MAIB (TAS)	Australian AWOTE	3.0%	7.0%	65%
TAC (VIC)	CPI over rolling ten year periods	5.0%	7.5%	74%
ICWA (WA)	CPI over rolling 7 year periods	3.5%	6.0%	68% ¹⁹

Source: Finity, based on annual reports for the Tasmanian, Victorian and Western Australian CTP schemes.

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

The MAIB's calculation of the required break-even premium assumes a real investment return (above AWOTE) of three per cent per annum ie seven per cent. This compares to the 6.6 per cent nominal investment return assumed for the 2013 Investigation.

The average investment return over the last four years has been 10.3 per cent, 4.6 per cent above target. While returns have been high in recent years, this was not the case in any of the previous five years to 2012. From 2000, the real return has been close to the MAIB's three per cent target.²⁰

In its Preliminary Submission the MAIB notes that there is significant uncertainty over the next four years given as yet unknown impacts relating to the United Kingdom leaving the European Union and the election of a new President of the United States of America.²¹

Table 3.2 compares the real rate of return, the investment rate and the relative proportion of the MAIB's capital invested in growth assets as assumed for all previous pricing investigations. As the table shows, the proposed real rate of return for 2017 is the equal lowest since 1997, despite growth assets representing the highest proportion of assets (65 per cent) since 1997.

¹⁹ In this table, CPI refers to the Consumer Price Index.

²⁰ MAIB (2017) Preliminary Submission, page 17.

²¹ Ibid, page 17.

Table 3.2 Investment return assumptions – previous GPOC/Regulator investigation reports

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	3.6%	3.0%	6.6%	63%
2017 (proposed)	4.0%	3.0%	7.0%	65%

Source: Previous GPOC/Regulator investigation reports, MAIB (2017) Preliminary Submission.

3.3.5.1 Investment returns and the real rate of return – Regulator's conclusions

The Regulator recognises 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.

That said, based on Finity's advice, the Regulator accepts the proposals in the MAIB's Preliminary Submission in relation to investment returns and the real rate of return.

3.3.6 Vehicle registrations

In its Preliminary Submission, the MAIB has assumed that, for 2017-18, there will be 533 389 registered vehicles in Tasmania.²²

Based on historic experience and future projections the MAIB expects the number of registered vehicles in Tasmania to increase by two per cent per annum.²³

There were 512 677 registered vehicles in Tasmania as at the end of November 2016. Applying a projected increase of two per cent per year, the MAIB expects that there will be 533 389 registered vehicles as at the end of the 2017-18 premium year on 30 November 2018.

The Regulator notes that between 2010 and 2015, the Australian Bureau of Statistics (ABS) found that the number of registered vehicles in Tasmania increased by an average of two per cent per annum.²⁴

3.3.6.1 Vehicle registrations – Regulator's conclusions

The Regulator has reviewed the MAIB's estimate of the number of registered vehicles in Tasmania and accepts that estimate.

²² MAIB (2017) Preliminary Submission, Table F.1, page 56.

²³ *ibid*, page 21.

²⁴ Australian Bureau of Statistics, 9309.0 - Motor Vehicle Census, Australia, 31 January 2015.

Based on the ABS data, the Regulator also accepts the MAIB's forecast of the expected growth in the number of registered vehicles during the pricing period.

3.4 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 3.3 provides a summary of the scheduled benefits payable to persons injured in motor vehicle accidents in Tasmania.

3.4.1 Claims frequency

The MAIB's consulting actuary modelled scheduled benefits based on the number of general claims reported rather than just those persons actually 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 under common law. The MAIB's Preliminary Submission states that general claims provide a useful benchmark for the emerging claims volume, which is also a lead indicator of overall financial performance. This approach was also adopted in previous pricing investigations.

As a result of the MAIB's claims experience over recent years, projected claim numbers are no longer set with reference to the number of registered vehicles, but rather as an absolute number of claims.

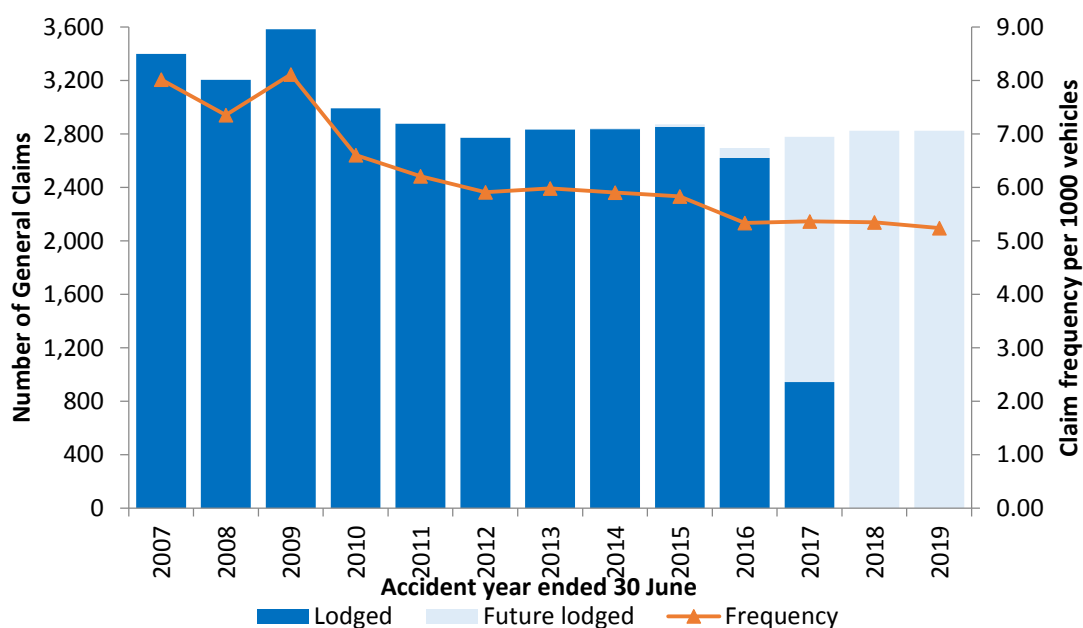
Figure 3.2 depicts the number of incurred claims, both reported and incurred but not reported (IBNR), and the frequency (ie number of claims per 1 000 registered vehicles) for the period 2006-07 to 2015-16 and the forecast values out to 2018-19. As the Figure shows, general claims frequency has continued to reduce each year.

Table 3.3 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 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"> The maximum total sum payable for medical and disability benefits (including Ambulance, Hospital, Treatment, aids/equipment, medical appliances, home modifications, travel and housekeeping) is \$400 000. For accidents on or after 1 August 2012, this may be increased to \$500 000 subject to the injured person being an in-patient at a hospital for a continuous period of more than 4 days commencing on the date of the accident. 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, Information on Claims procedures and Scheduled Benefits payable, available at <http://www.maib.com.au/been-in-an-accident>

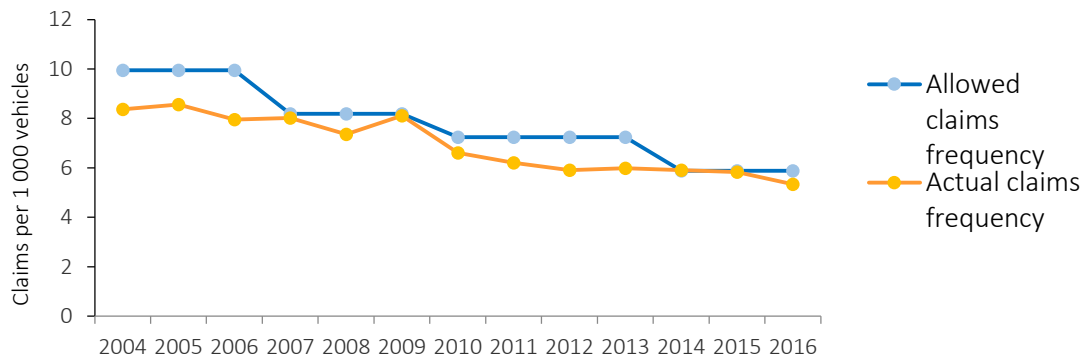
Figure 3.2 Trend in general claims frequency - 1 July 2007 to 30 June 2019 inclusive



Source: MAIB (2017) Preliminary Submission, page 71.

In previous investigations, the Regulator considered that the downward trend in claims frequency was unlikely to be maintained.²⁵ However, claims frequency has continued to decline. Figure 3.3 compares the claims frequency rate adopted by the Regulator 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. Actual claims experience also exhibits a modest downward trend.

Figure 3.3 Actual versus GPOC/Regulator allowed scheduled benefits claims frequency for accident year ending 30 June



Source: MAIB (2017) Preliminary Submission, page 71 and previous GPOC/Regulator investigations.

This trend has occurred for two reasons: a decrease in the number of claims and an increase in the number of registered vehicles.

The reduction in claims numbers would appear to be due to improvements in road safety, vehicle design, or driver behaviour through initiatives such as the Road Safety Advisory Council (RSAC). 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 RSAC would be difficult to maintain without considerable extra expenditure. Despite the recent experience, the Regulator agrees with the MAIB's view that the point of diminishing 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.

Based on recent experience, the MAIB has assumed that there will be 2 824 general claims during 2017-18 which translates to a frequency of 5.35 claims per 1 000 vehicles for that year.

3.4.2 Average claim size

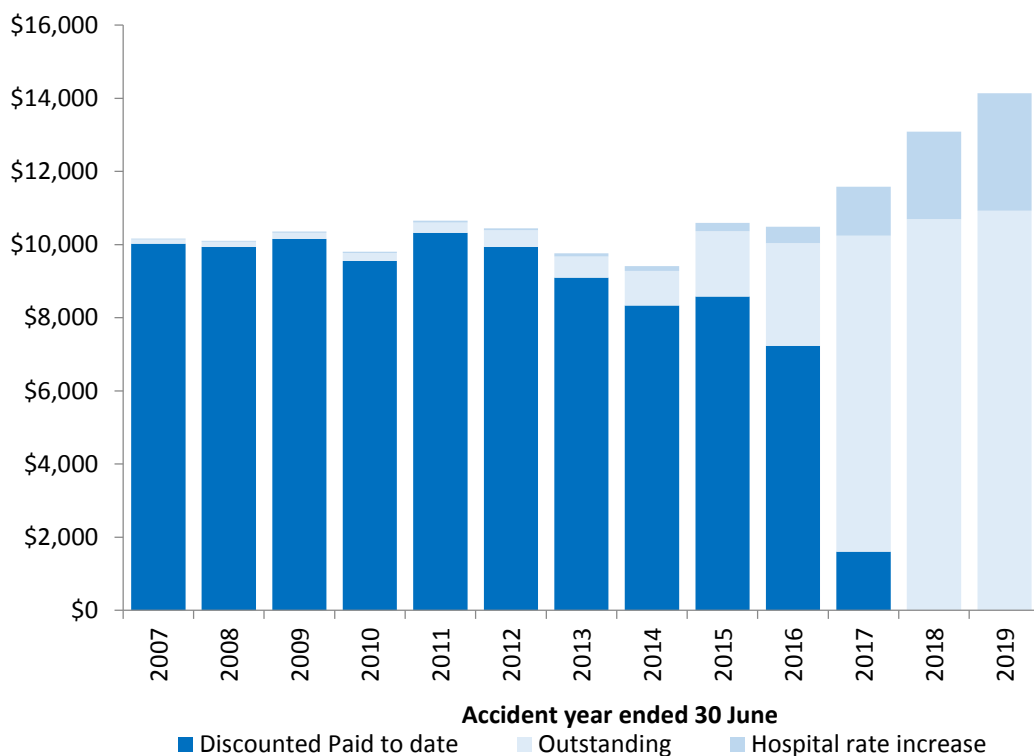
Figure 3.4 shows the average estimated Scheduled Benefit claim size by accident year ending 30 June. The costs account for the following three components:

- the average cost paid to date;
- the expected future average outstanding liability; and
- the hospital fee rate increase.

²⁵ Tasmanian Economic Regulator (2013), *Investigation into the Motor Accidents Insurance Board's Pricing Policies, Final Report, July 2013*, page 30.

When compared to common law claims, Scheduled Benefits are paid quickly with a large proportion of costs relating to treatments immediately following the accident. This means that the average cost is known with a high degree of certainty relatively soon after accident, as shown by the small amount of outstanding payments for most accident years.

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



Source: MAIB (2017) Preliminary Submission, page 72.

The average claim size was reasonably steady between 2007 and 2012 and decreased in both 2013 and 2014 before rising in 2015. A substantial increase in the average claim size is expected to continue in the upcoming pricing period as a result of new hospital fee rates that were effective from 1 July 2016.

Prior to the 2013 Investigation, the Tasmanian Health Service (THS) indicated that the fees the MAIB paid for hospital services were too low and that increases were imminent. This issue was raised in the Preliminary Submission made by the MAIB as part of the 2013 Investigation. In its Final Report, the Regulator recognised the uncertainty created by this issue but recommended not allowing the MAIB to include the projected fee increases in its average claim size.

The MAIB has subsequently negotiated hospital fee rate increases with the THS which became effective from 1 July 2016. The outcome of those negotiations was that hospital fees will double over the next four years with increases in excess of inflation of 25 per cent in 2016-17, 33 per cent in 2017-18 and 2018-19 and 2019-20. Spreading these increases across several years has avoided a step change in costs and therefore premiums and reduced uncertainty in MAIB's cost base. By 2019, hospital fee increases are expected to add more than \$3 200 to

the average cost of each claim resulting in an average cost per claim of \$14 137.²⁶ The Regulator has obtained details of the agreement between the THS and MAIB in relation to these increases and, based on those details, accepts the MAIB's estimate of increased hospital costs.

The ambulance service rates, which are set by the *Ambulance Services (Fees) Regulations 2011*, were revised effective from 21 January 2015. As a result, some service rates remained largely the same while others increased by over 100 per cent. The fees are subject to yearly CPI increases in accordance with the *Fee Units Act 1997*. Ambulance service fees may be subject to further review in the future but the Regulator understands that the MAIB is not aware of any further prospective changes.

Based on recent experience, the MAIB has assumed that the total cost of Scheduled Benefit claims will be \$37.3 million in 2017-18.

3.4.3 Scheduled benefits - Regulator's conclusions

The MAIB's recent claims experience with respect to scheduled benefits has been favourable. This has resulted in a modest reduction in the claims frequency over recent accident years. The average claim size has also 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.

The Regulator accepts the MAIB's break-even premium assumption that there will be 2 824 Scheduled Benefits claims which implies, for 2017-18, a claims frequency of 5.35 per thousand vehicles, a total cost of \$37.3 million and an average cost per vehicle of \$69.87.

3.5 Common law

Under the common law system, damages may be awarded generally and for loss of earnings. As noted in Section 2.2, 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 institute 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. Once notified 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.

²⁶ MAIB (2017) Preliminary Submission, pages 13 and 72.

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, ie 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 (eg 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;²⁷
- ❑ 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
- ❑ 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 rate applicable under statute is five per cent per annum.²⁸ 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.

3.5.1 Claims frequency

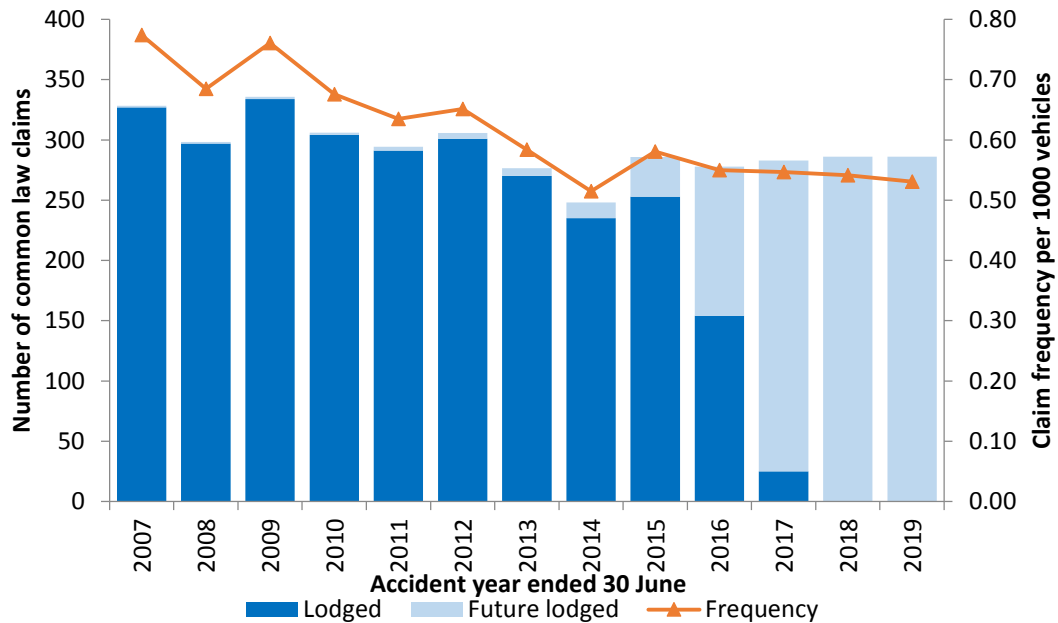
Figure 3.5 shows the number of common law claims per 1 000 registered vehicles since 2007, together with the frequency assumed in the MAIB's proposed break-even premium. Similar to the trend in relation to scheduled benefits, the frequency of common law claims has continued to show a slight downward trend overall. The number of claims has been relatively stable from 2007 to 2013, with 2014 being an unusually low year. Despite the stable claims numbers, an increase in registered vehicles has resulted in a 29 per cent decrease in claim frequency per vehicle for the eleven years to 2017. There is no expectation from the MAIB of a further reduction in claims frequency in the near future, with claims projected to remain at current levels. However, as noted in Section 3.4.1, the expected continued increase in the number of registered vehicles will likely result in the claim frequency continuing to decline. The reduction in common law claims is consistent with the reduction in general claims. The

²⁷ 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*.

²⁸ Note that this discount rate is used by courts of law to determine the overall value of a claim. The MAIB is then 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.

MAIB attributes these reductions to a range of factors including the impact of road safety policies and accident prevention activities.²⁹

Figure 3.5 Frequency of common law claims



Source: MAIB (2017) Preliminary Submission, page 63.

Based on actuarial calculations of the break-even premium, the MAIB has assumed that there will be 286 common law claims in 2017-18 (this equates to a frequency of 0.54 per 1 000 registered vehicles).

3.5.2 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 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.

Historically this process has resulted in approximately 35 per cent of these potential claims ultimately receiving a damages amount. In response to this relatively low percentage, the definition of a common law claim has changed.³⁰ Under the new definition, common law claims represent approximately ten per cent of general claims with about 85 per cent of those claims expected to receive a damages settlement.

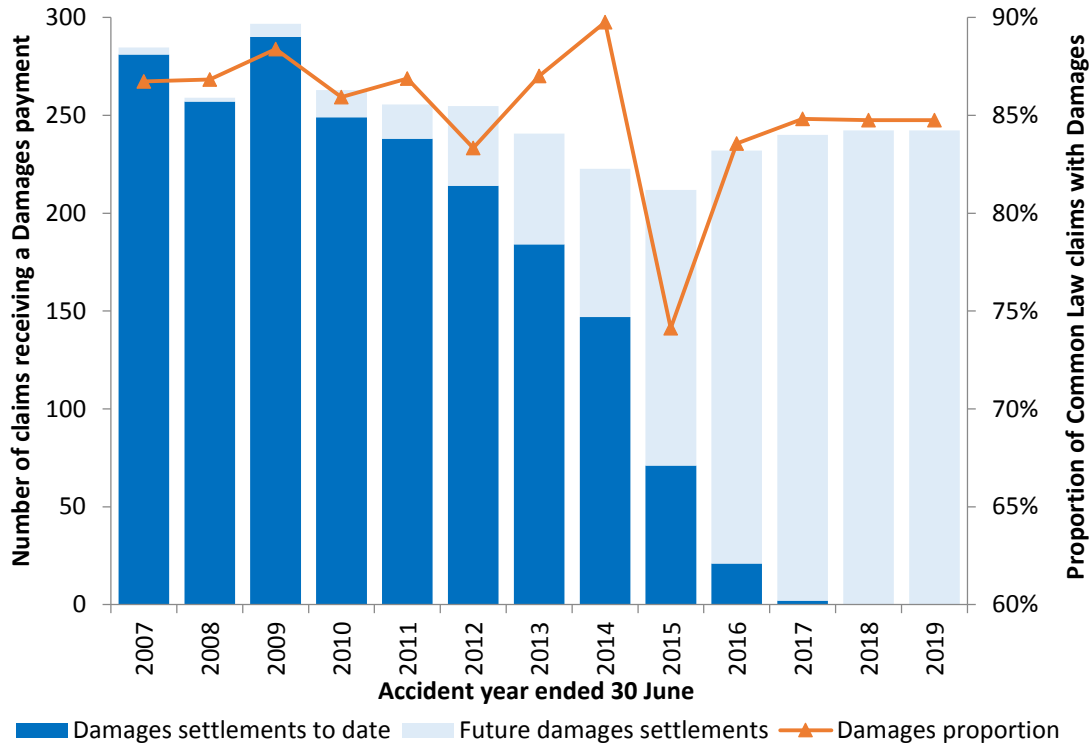
As well as forecasting the number of common law claims, it is also necessary to forecast the number of non-nil damages claims.

Similar to the trend in the overall number of common law claims, the number of claims receiving a damages settlement is relatively stable. As a proportion of claims, the proportion with damages falls within a range of 74 per cent to 90 per cent as shown in Figure 3.6.

²⁹ MAIB (2017) Preliminary Submission, page 63.

³⁰ Ibid, page 62.

Figure 3.6 Non-nil damages common law claims



Source: MAIB (2017) Preliminary Submission, page 64.

The MAIB estimates the proportion of common law claims that receive a damages payment has averaged 85 per cent in the period 2007 to 2015. Noting this estimate, the MAIB has assumed, in 2017-18, that there will be 242 non-nil claims (ie 85 per cent of the forecast 286 claims will be non-nil claims).

3.5.3 Average claim size

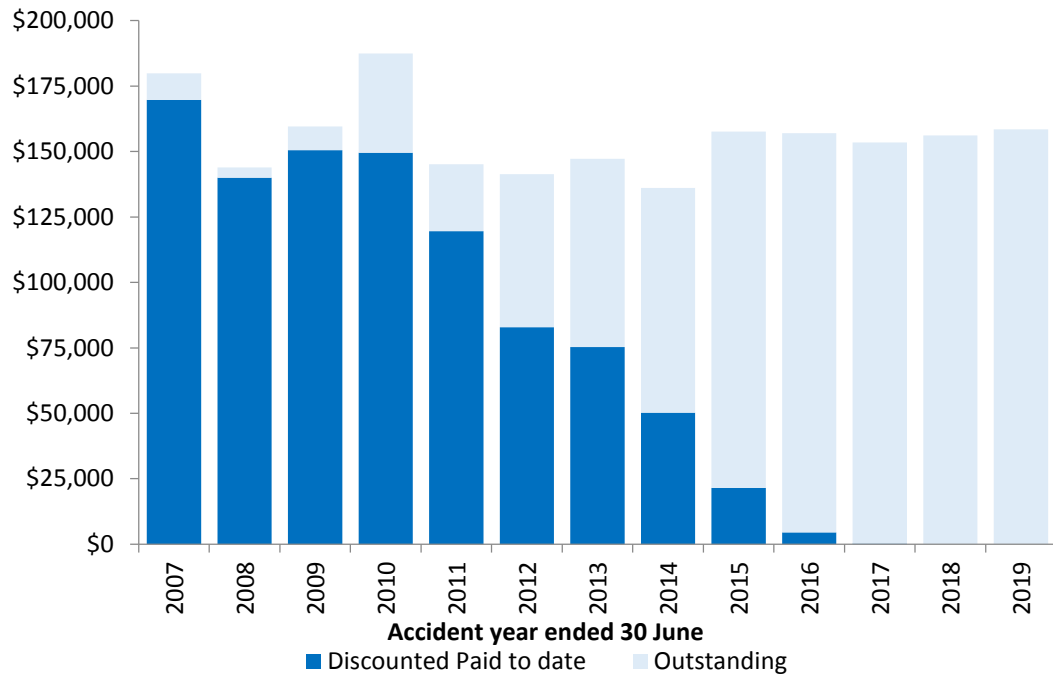
Figure 3.7 presents the average estimated Common Law claims size by accident year. Average claim size is measured on a consistent basis to that used in calculating the break-even premium with all costs measured in December 2016 dollars and then inflated to 2023 dollars and discounted to May 2018 dollars.

For recent accident years only a small portion of the cost has been paid with the majority treated as an estimated outstanding value.

Based on the MAIB's claims experience for the accident years 1 July 2006 to 30 June 2013 inclusive, the average non-nil common law claim size is estimated to be \$0.159 million.

With the assumption of 242 Common Law claims receiving damages, the MAIB has assumed Common Law claims will cost a total of \$36 million in 2017-18.

Figure 3.7 Common law average estimated claim size



Source: MAIB (2017) Preliminary Submission, page 65.

3.5.4 Common Law - Regulator's conclusions

As with scheduled benefits, the frequency of common law claims has reduced significantly over recent accident years, with the exception of 2015.

Unlike the comparisons made with respect to scheduled benefits, the Regulator is unable to compare actual versus allowed common law claims frequency in recent years due to the change in the definition of a common law claim. However, the 2013 Investigation noted that actual claims experience was lower than allowed claims experience each year in the decade prior to the Investigation. Furthermore, actual claims experience has exhibited a clear downward trend over the last ten years.

This continuing downward trend has occurred for the same reasons as noted for the reduction in scheduled benefits, ie a decrease in the number of claims coupled with an increase in the number of vehicle registrations. The key, once again, is to determine the appropriate trend to apply to forecast claims frequency that would benefit Tasmanians without putting undue financial pressure on the MAIB.

Considering recent trends in common law claim movements, the Regulator considers the MAIB's proposed number of common law claims to be realistic and accepts it.

Given the increase in hospital costs, the Regulator considers that the MAIB's assumptions are reasonable and are consistent with the assumptions accepted by the Regulator and GPOC in previous investigations.

The Regulator accepts the MAIB's break-even premium assumption that there will be 242 non-nil Common Law claims which implies, for 2017-18, a total cost of \$36 million and an average cost per vehicle of \$67.57.

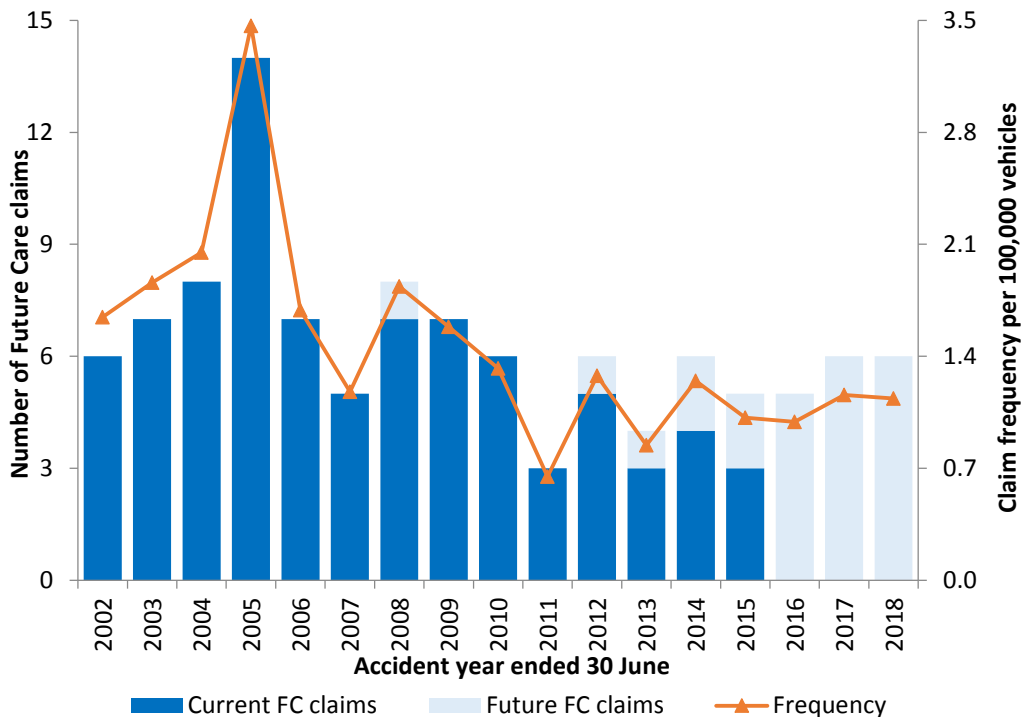
3.6 Future care

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 made to the MA Act in 1991 to introduce the future care benefit also removed the right of the courts to award lump sum damages in respect of future care, ie lifetime care benefits can only be paid under the no-fault component of the scheme.

3.6.1 Claims frequency

Figure 3.8 shows the estimated number of future care claims arising in each accident year together with the assumed claims frequency. The number of claims has fluctuated between three and 14 claims per accident year since 2002, with the average being seven. The MAIB suggests that this may change depending on the numbers of IBNR claims eventually reported for more recent years.³¹ Figure 3.8 shows that there can be considerable volatility in this parameter, particularly when there are a high number of future care claims as was the case for accident year 2004-05. However, given the relatively small number of claims, some variability is to be expected.

Figure 3.8 Claims frequency for future care claims



Source: MAIB (2017) Preliminary Submission, page 67.

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.

³¹ MAIB (2017) Preliminary Submission, page 67.

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 the 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 during the 2009 Investigation. The 2013 Investigation found that eight claims would be an appropriate number of Future Care claims per annum.

The MAIB has assumed a reduction in the number of forecast future care claims from eight to six for 2017-18.

3.6.2 Average claim size

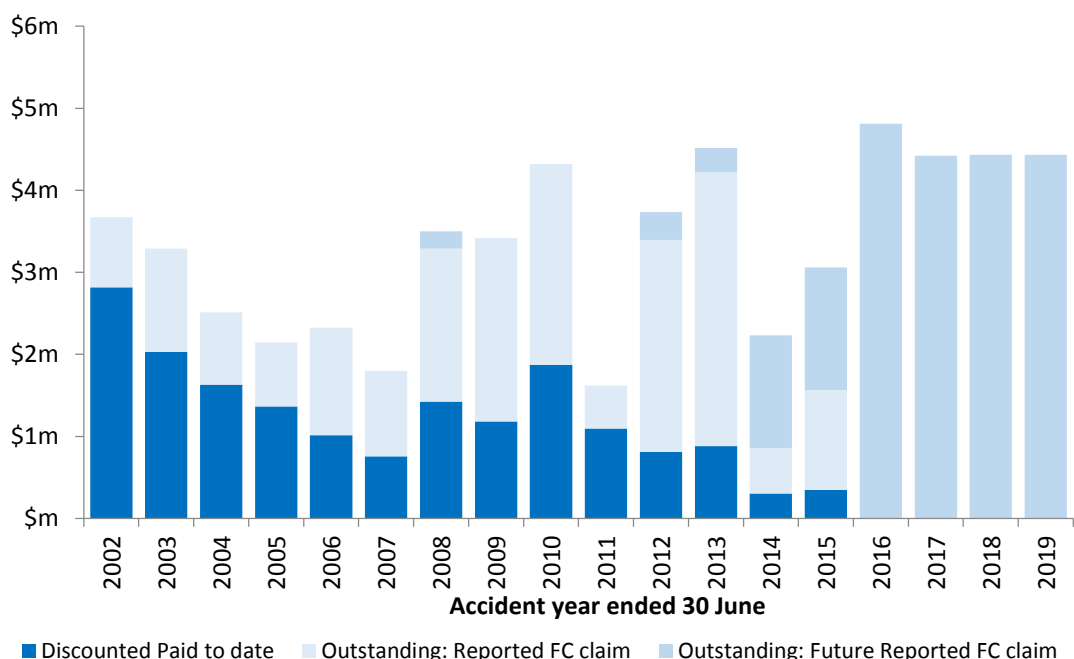
Future care claims payments are made for as long as a claimant requires 'daily care'. This often occurs for life. The quantum of the payments depend on the level of care required. The cost of future care claims therefore depends heavily on the age of the claimant at the time of the accident and the nature 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 3.9 shows the past average estimated cost of future care claims by accident year in inflated and discounted values. The amounts include Goods and Services Tax (GST) and future reinsurance recoveries.

As can be seen from Figure 3.9, 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.

Figure 3.9 Average size of future care claims



Source: MAIB (2017) Preliminary Submission, page 68.

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 has been between \$1.62 million and \$4.81 million.³²

The MAIB has assumed that the average cost of future care claims is \$4.432 million per claim which results in a total cost for 2017-18 of \$24.4 million and equates to an average cost per vehicle of \$45.70.

3.6.3 Future care costs - Regulator's conclusions

Future care costs are difficult to estimate accurately due to the small number of claims each year. Additionally, while these claimants are all severely injured, there is considerable variability in the age and injury profile of future care claims. The ultimate claim size of future care claimants is therefore highly variable and difficult to predict in advance.

The MAIB is forecasting six future care claims per year, down from eight estimated for the 2013 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 six claims is reasonable as it reflects past experience and the long-term average frequency of around 1.1 per 100 000 vehicles.

With regard 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, in turn, higher cost claims) soon after the accident, and claims of lower severity usually (although not always) emerge later. It would therefore 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 has been in the range \$1.62 million to \$4.81 million. As noted in Section 3.6.2, the MAIB is proposing an average future care claim of \$4.43 million, which is at the upper end of this range. This reflects the most recent experience of higher reported claim size and an allowance for increases to carers wages awarded under the FWA. The Regulator considers this to be a reasonable assumption.

The MAIB has not made any allowance for superimposed inflation for future care based on claims cost investigations undertaken by its actuary. Instead superimposed inflation has been included to the extent that is foreseeable in the expected support needs for future care claims and through an allowance for the FWA decision.³³

³² MAIB (2017) Preliminary Submission, page 68.

³³ *ibid*, page 74.

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

- ❑ average claim size estimation is imprecise;
- ❑ carer cost increases have already been incorporated into the base estimate; and
- ❑ historical experience has not shown a discernible trend of superimposed inflation.

The Regulator accepts the MAIB's break-even premium assumption that there will be six Future Care claims for 2017-18, averaging \$4.43 million per claim giving a total cost of \$24.4 million and an average cost per vehicle of \$45.70.

3.7 Expenses and road safety initiatives

3.7.1 General and administrative costs

Noting the MAIB's Preliminary Submission³⁴, the Regulator recognises that comparing general administration expenses is difficult because the level of general expenses can be expected to vary in line 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 as an administrative cost.

Table 3.4 below shows the MAIB's general and administration expenses over the past four financial years together with a forecast for a further four financial years.

Table 3.4 MAIB expenses history and forecasts (nominal)

Year Ended 30 June	Actual				Forecast			
	2013 \$'000	2014 \$'000	2015 \$'000	2016 \$'000	2017 \$'000	2018 \$'000	2019 \$'000	2020 \$'000
Earned premium	139 143	139 539	134 465	137 755	138 511	133 957	136 773	142 817
Expenses								
Administration	6 877	6 259	6 350	6 107	6 785	6 902	7 093	7 292
Reinsurance	5 923	6 025	5 840	5 809	5 855	6 083	6 513	6 775
RSAC	3 785	3 791	3 843	3 974	4 105	4 215	4 343	4 471
IPMF	680	55	585	689	880	900	1 000	1 000
Collection Fees ^{Note 1}	2 644	2 631	2 798	2 805	2 941	2 960	3 049	3 141
Unexpired risk expense	1 331	912	912	(2 179)	1 337	2 254	(427)	(1 636)
Total expenses	21 240	19 673	20 328	17 205	21 903	23 314	21 571	21 043

Source: MAIB (2017) Preliminary Submission, Appendix N, Table N.1, page 94.

Note 1: Shown as 'Underwriting expenses' in Table N.1.

³⁴ MAIB (2017) Preliminary Submission, page 75.

Total expenses decreased by a total of \$4 million in nominal terms between 1 July 2013 and 30 June 2016. As a percentage of earned premiums, over the same period, expenses have decreased from 15.3 per cent to 12.5 per cent.

Over the same period, relative to earned premiums, administrative costs have reduced from 4.9 per cent to 4.4 per cent.

Additionally, between 1 July 2013 and 30 June 2016:

- ❑ funding to the RSAC and to the State Emergency Service (SES) increased by 5 per cent;
- ❑ IPMF expenditure decreased by 1.3 per cent; and
- ❑ reinsurance costs decreased by 1.9 per cent.

In its Preliminary Submission, the MAIB noted that:

Expenses have been relatively stable for several years and have grown slower than AWOTE.³⁵

The MAIB has estimated that its general and administrative costs will total \$6.9 million in 2017-18 which equates to an average cost per vehicle of \$12.53.

3.7.2 Collection fees

With the exception of NSW, all Australian MA schemes utilise the respective state vehicle registration authority to collect premiums and pay a fee for this service. In Tasmania, the fee, also referred to as acquisition (agency) costs, is paid by the MAIB to the Department of State Growth (formerly the Department of Infrastructure, Energy and Resources (DIER)) and is currently \$4.20 per certificate. This rate is unchanged from that paid following the 2013 Investigation.

The MAIB has estimated a total cost of \$3.0 million in 2017-18 for this service which equates to an average of \$5.69 per vehicle.

3.7.3 Reinsurance

The MAIB has entered into reinsurance contracts to cover 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's Preliminary Submission indicates that reinsurance premiums over the past four years have remained steady resulting in reductions in real terms in this cost component. The MAIB has also noted that the ongoing reduction to future care claim frequency should help to mitigate the risk of large increases in this cost component in the future.

³⁵ MAIB (2017) Preliminary Submission, page 18.

For its proposed break-even premium, the MAIB estimates its reinsurance costs for 2017-18 to be \$6.3 million (\$11.74 per vehicle). The MAIB has assumed that this cost will increase at a constant (average) rate of two per cent per vehicle per annum.

3.7.4 Road safety initiatives

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. The MAIB proposes spending a similar amount on accident prevention expenses as it has in previous years as a proportion of total expenses.

Item 5 of the Terms of Reference requires the Regulator to take into account the MAIB's funding of:

- (a) the RSAC; and
- (b) groups recognised through the IPMF.

Overall, the MAIB is proposing annual expenditure of \$5.2 million on road safety initiatives (\$9.77 per vehicle) as explained in the following sections.

3.7.4.1 Road Safety Advisory Council

The MAIB initiated the Road Safety Task Force (RSTF) in July 1996. In October 2010, the RSTF was incorporated under the RSAC. Its purpose is 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, every three years, with the most recent evaluation occurring in 2014. All reviews conducted to date have found that the program delivers positive outcomes.

Following Dr Woolley's 2014 review, the MAIB accepted the recommendation to continue funding this initiative. As a consequence, the MAIB has committed annual funding of \$3.6 million for a further three years from 1 January 2015.

The Regulator has reviewed Dr Woolley's 2014 report and notes Dr Woolley's conclusion that:

Overall, the MAIB appear to be getting good value for their investment and given that the RSAC activity represents slightly more than a quarter of the active enforcement effort in the state and the only road safety mass media, its importance to road safety in Tasmania is not to be underestimated.³⁶

3.7.4.2 Road Crash Rescue

The MAIB also provides around \$0.40 million per year in funding to the Tasmania Fire Service (TFS) to cover the TFS's costs of extracting MAIB claimants from vehicles involved in accidents. The MAIB also provides annual funding of \$0.33 million to the SES to assist with its road rescue activities in rural areas.³⁷

³⁶ Evaluation of the MAIB Funded Component of the Road Safety Advisory Council (2010 to 2013), J E Woolley and D Searson, July 2014, Prepared by the Centre for Automotive Safety Research for the Motor Accidents Insurance Board.

³⁷ MAIB (2017) Preliminary Submission, page 19.

The MAIB proposes a continuation of this funding at similar levels as has occurred in the past for the pricing period.

3.7.4.3 Injury Prevention and Management Foundation

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 per annum of gross premiums.

The MAIB's Board assesses projects for funding based on merit and whether they meet the IPMF's objectives of research, education or service development directed towards the prevention of motor vehicle accidents and/or the reduction in severity or management of injuries resulting from motor vehicle accidents. Funding of \$0.726 million was provided to the IPMF during 2015-16.

The MAIB proposes a continuation of this funding, at a similar level to 2015-16, for the pricing period.

3.7.4.4 Motorcycle safety strategy

In 2008, 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 with the use of unexpended funds. The MAIB has indicated that the take-up rate has been modest in the past three years with annual funding of only \$15 000 per year expected. The MAIB has also provided funding to the Tasmanian Motorcycle Council (TMC), Northern Motorcycle Riders Association and Ulysses Club for various events and activities that promote road safety.³⁸

The MAIB proposes a continuation of this unexpended funding for the pricing period.

3.7.5 Comparison with costs in other jurisdictions

Table 3.5 compares the MAIB's expenses with the expenses of other Australian MA insurance providers similar to the MAIB for the financial year ending 30 June 2016.

Table 3.5 Comparison of expenses with other MA schemes in dollars per vehicle

Cost per vehicle	Tas (MAIB)	Vic (TAC)	SA (MAC)
Collection fees	5.7	8.7	8.4
General	13.3	33.5	26.9
Accident prevention	10.2	15.9 ^{Note 1}	5.6
Total ^{Note 2}	29.2	58.1	41.0

Source: CTP scheme annual reports and Australian Bureau of Statistics data.

Note 1: Excludes road safety infrastructure expenditure.

Note 2: Excludes reinsurance.

³⁸ MAIB (2017) Preliminary Submission, page 19.

The Regulator notes that this comparison is indicative only because:

- ❑ the table relies on a variety of sources and includes several assumptions;
- ❑ practices differ across schemes regarding the classification of expenses; and
- ❑ expenses associated with administering no-fault and common law compensation likely differ.

That said, Table 3.5 indicates that, overall, the expenses incurred per vehicle by the MAIB are low when compared to other schemes.

3.7.6 General and administrative expenses and funding of road safety initiatives - Regulator's conclusions

The Regulator considers that the MAIB's proposed general and administrative expenses, at 5.1 per cent of claims costs, are reasonable and consistent with historical trends.

The collection fees and reinsurance costs proposed by the MAIB are also considered reasonable.

The Regulator re-iterates the views expressed in past investigation reports that providing an allowance for road safety and other programs is considered to be appropriate if the MAIB can demonstrate that the benefits, in terms of reduced frequency and/or claims costs, will exceed the additional cost of funding these programs.

As the available evidence suggests that these programs yield positive results in terms of reducing claims frequency and the MAIB's costs, thereby benefitting all motorists, the Regulator accepts the MAIB's proposed expenditure on these programs.

3.8 MAIB's proposed break-even premium

In its Preliminary Submission, the MAIB calculates that the estimated average break-even premium required for 2017-18 is \$222.86.³⁹

The components of the MAIB's proposed break-even premium are summarised in Table 3.6 below.

3.9 Break-even premium – Regulator's recommendations

As explained above, the Regulator accepts the assumptions the MAIB has used in calculating the components of its proposed break-even premium.

As a consequence, the Regulator also accepts the MAIB's proposed break-even premium of \$222.86.

³⁹ MAIB (2017) Preliminary Submission, page 56.

Table 3.6 Components of the MAIB's proposed break-even premium 2017

Component	Assumption	Total Cost per annum \$m	Cost per vehicle \$
Registered Vehicles	533 389		
Scheduled benefits			
▪ Number of claims	2 824		
▪ Discounted average claim size	\$0.014m		
▪ Allowance for DAM's/ITCs	-6.3%	37.3	69.87
Common law			
▪ Number of claims	286		
▪ Proportion receiving damages	85%		
▪ Discounted average claim size	\$0.159m		
▪ Allowance for DAM's/ITCs	-6.3%	36.0	67.57
Future care			
▪ Number of claims	6.0		
▪ Discounted average claim size	\$4.432m		
▪ Allowance for DAM's ⁴⁰ /ITCs ⁴¹	-8.3%	24.4	45.70
Sub-total claims costs		97.7	183.14
Expenses			
▪ General and administrative		6.7	12.53
▪ Collection fees		3.0	5.69
▪ Reinsurance		6.3	11.74
Sub-Total expenses		16.0	29.95
Programs			
▪ Road safety & SES		4.3	7.97
▪ IPMF		1.0	1.79
Sub-total programs		5.2	9.77
TOTAL		118.9	222.86

Note: in some cases sub-totals may not reconcile due to rounding.

⁴⁰ The DAM applies under the GST legislation and relates to settlement costs for claims arising from accidents occurring after 30 June 2000. For accidents occurring between 1 July 2000 and 30 June 2003, the DAM is equal to 1/11th of the settlement cost. For accidents occurring on or after 1 July 2003, the DAM is equal to approximately 69 per cent of 1/11th of the settlement cost.

⁴¹ Under the GST legislation the MAIB is able to claim an ITC in respect of the GST payable on non-settlement costs (eg investigation costs, defendant legal costs and the cost of medical reports).

4 THE MAIB'S FINANCIAL CIRCUMSTANCES

4.1 Introduction

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

Analysis from this chapter will assist the Regulator in considering 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;
- MAIB's approach to claims liability valuation;
- MAIB's investment policy;
- Government's dividend policy in relation to the MAIB; and
- MAIB's forecast solvency trends.

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

4.2 Financial targets

Under the Terms of Reference, the Regulator is required to consider the appropriateness of the MAIB using current insurance industry prudential requirements as a benchmark to measure long-term sustainability.

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).

Following an actuarial recommendation in 2014 the MAIB adopted the funding ratio as the measure of capital adequacy rather than the solvency ratio which was used previously.

The MAIB calculates its funding ratio as:

$$\frac{\text{assets (less non-claim related liabilities, deferred dividends and tax)}}{\text{outstanding claims and premium liabilities}}$$

Finity noted that a funding ratio greater than 100 per cent implies that the value of the assets available to meet claims exceeds the liability for outstanding claim and premium liabilities. 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.⁴²

This section considers the appropriate funding ratio target for the MAIB.

4.2.1 MAIB proposal

In its Preliminary Submission the MAIB notes that it is essential that it holds an appropriate level of capital for reasons of good governance and sound financial management.⁴³ To this end, the MAIB 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.

The MAIB adopted a target funding range of 120 to 145 per cent in 2014 following an actuarial review, replacing the previous range of 120 to 125 per cent. The wider range recognises the degree of change in investment returns of growth assets and the change in outstanding claims liability resulting mostly from volatility in bond yields.

4.2.2 Insurance industry benchmark requirements

The Terms of Reference requires the Regulator to consider the appropriateness of the MAIB using current insurance industry prudential requirements as a benchmark to measure long-term sustainability. As noted in previous investigations, there is merit in referring to the APRA standards as a benchmark. However, it has also been noted in the past 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.

The fact that the MAIB is a long-tail insurer, with claim payments required many years after accidents,⁴⁴ is also considered to be 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.

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:

- ❑ insurance risk (an insurer with a high proportion of long-tail claims attracts a higher loading);
- ❑ asset allocation (an insurer with a higher proportion of high growth assets also attracts a higher loading); and

⁴² Finity (2017) *Motor Accidents Insurance Board Pricing Investigation 2017* report prepared for the Tasmanian Economic Regulator, page 15.

⁴³ MAIB (2017) Preliminary Submission, page 32.

⁴⁴ Tasmanian Economic Regulator (2013), *Investigation into the Motor Accidents Insurance Board's Pricing Policies, Final Report, July 2013*, page 79.

- ❑ 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 accident.

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 provider; 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.

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 comments⁴⁵

To assist in determining the appropriate solvency target, the Regulator engaged the services of the actuarial firm Finity. In its report, Finity noted that the level of solvency for MAIB compared to its solvency target was 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 significantly increase premiums to alleviate an unfavourable financial position. Alternatively, higher solvency levels may be deemed an inefficient use of capital. Finity noted that, in setting solvency targets, the following should be considered:

- ❑ measurement of capital and definition of a poor solvency position;
- ❑ risk tolerances associated with capital levels and solvency volatility;
- ❑ the variability of the business, including claim costs and investment returns;
- ❑ preferred level of dividend or return on capital;
- ❑ risk tolerance to premium increases (or other remedial actions such as expenditure cuts or benefit changes, dividend holidays and legislative reforms); and
- ❑ acceptable time horizon to recover from a poor solvency position.

⁴⁵ Much of this material has been paraphrased from Finity (2017) *Motor Accidents Insurance Board Pricing Investigation 2017* report prepared for the Tasmanian Economic Regulator.

Finity considers that adopting a lower bound of 100 per cent is a sensible level to consider as a poor solvency position as there is a significant aversion to net assets being less than the value of outstanding claims and premium liabilities. This 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 noted 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.

Finity also noted that the MAIB is currently undertaking an exercise to determine risk tolerance which will improve policy framework understanding, and the implications of financial targets, as recommended by the Regulator in its 2013 Investigation Final Report.⁴⁶

In summary, Finity considers that the funding range of 120 to 145 per cent represents a reasonable range in the context of the risk faced by the MAIB including the shocks to solvency that have occurred in the past (most notably the Global Financial Crisis (GFC)).

⁴⁶ Tasmanian Economic Regulator (2013), *Investigation into the Motor Accidents Insurance Board's Pricing Policies, Final Report, July 2013*, page 66

4.2.4 Target solvency – Regulator's conclusions

The Regulator does not advocate the adoption of the APRA standards in absolute terms for the reasons discussed above. However, the Regulator is 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 or prudential margin above the central estimate of outstanding claims and premium liabilities. This risk margin is required to provide at least a 75 per cent probability of adequacy. The Regulator notes that the MAIB has included a risk 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).

Based on Finity's findings, the Regulator accepts the MAIB's target funding range.

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, which is the assumed claims escalation rate (claims inflation) and discount rates, which are discussed below.

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

4.3.1 Discount rate

As explained in its Preliminary Submission, the discount rates used by the MAIB in the valuation of claims liabilities are set in accordance with *Australian Accounting Standard AASB 1023*, which requires the liability to be calculated as the net present value of the outstanding claim payments using risk-free interest rates. Commonwealth Government Bonds are used as the basis for measuring risk-free rates and hence the MAIB's liability is highly sensitive to movements in bond yields. While a range of bonds are used to set the interest rates for discounting the outstanding claims liability, the trend in the ten-year bond yield provides a good guide to movements in the overall risk-free rate that is most relevant for the MAIB. Government ten-year bond yields have reduced significantly in recent years, reaching a low in July 2016 when the yield fell to 1.9 per cent. Since then, the yield has increased to 2.8 per cent, but this is still low by historical standards.⁴⁷

However, the MAIB's liabilities have payments beyond the maturity of the longest dated bonds and the amount of long dated bonds issued is often limited. When estimating long term liabilities, the MAIB therefore supplements market observed yields with a forecast long term interest rate of six per cent in 50 years' time. This rate is based on the projected long term wage inflation assumption of four per cent per annum, and implies a real return for the MAIB of two per cent between wage inflation and risk-free returns.⁴⁸

⁴⁷ MAIB (2017) Preliminary Submission, page 14.

⁴⁸ Ibid, page 60.

4.3.2 Claims inflation

As noted in Section 3.3.4, the MAIB includes 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 Preliminary 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.⁴⁹

The MAIB has incorporated the following allowances for future superimposed inflation in its estimated value of outstanding claims:

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

The common law inflation rate has increased from 0.75 per cent in 2013.

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

4.3.3 Risk margin on claims and premium liabilities

APRA requires insurers to hold a risk or prudential margin above the central estimate of outstanding claims and premium liabilities. The outstanding claims liability is the amount MAIB holds to cover future claims costs for accidents which have already occurred. Premium liabilities relate to claims that occur after the scheme's balance date for which a premium has already been received.

Typically, APRA requires a margin of at least 20 per cent and the MAIB has included a risk margin of 20 per cent in the outstanding claims and premium liabilities for many years.

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.

In May 2016, MAIB reviewed the risk margin and determined that maintaining a 20 per cent risk margin is still expected to provide a probability of sufficiency of not less than 75 per cent.⁵⁰ Finity considers that, while this is relatively high, it is not an unreasonable target.⁵¹

⁴⁹ MAIB (2017) Preliminary Submission, page 74.

⁵⁰ *ibid*, page 88.

⁵¹ Finity (2017) *Motor Accidents Insurance Board Pricing Investigation 2017* report prepared for the Tasmanian Economic Regulator, page 20.

4.3.4 Liability Adequacy Test

The Australian Accounting Standard AASB1023, *General Insurance Contracts*, requires insurers to undertake a Liability Adequacy Test (LAT) which compares the following:⁵²

- 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).

Premium that has not been recognised in an entity's statement of comprehensive income is recognised in its statement of financial position as an unearned premium liability. The unearned premium liability is to meet the costs, including the claims handling costs, of future claims that will arise under current general insurance contracts (Clause 7.1 of the Australian Accounting Standards Board Standard *AASB1023, General insurance contracts*).

Under Clause 8.1 of AASB1023, acquisition costs such as commission or brokerage paid to agents or brokers for obtaining business for the insurer are to be deferred and recognised as assets where they can be reliably measured and where it is probable that they will give rise to premium revenue that will be recognised in the entity's statement of comprehensive income in subsequent reporting periods.

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 Preliminary Submission states that the LAT, as at 30 June 2016, revealed a small deficiency of \$0.2 million after the writing back of DAC.

Finity considered the approach used by the MAIB to estimate the LAT is consistent with good practice and appropriate given the nature of the MAIB's risks.⁵³

4.3.5 Claims liability valuations and Liability Adequacy Test - Regulator's conclusions

Under the Terms of Reference, the Regulator was 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 comments that analysis for risk profile and historical claims liability was completed in May 2016 and maintaining a 20 per cent risk margin is still expected to provide a probability of sufficiency of not less than 75 per cent.

The Regulator is therefore of the view that the MAIB's approach to the valuation of its claims and premium liabilities is appropriate.

⁵² MAIB (2017) Preliminary Submission, page 88.

⁵³ Finity (2017) *Motor Accidents Insurance Board Pricing Investigation 2017* report prepared for the Tasmanian Economic Regulator, page 22.

Noting Finity's advice, the Regulator accepts the MAIB's estimate of LAT.

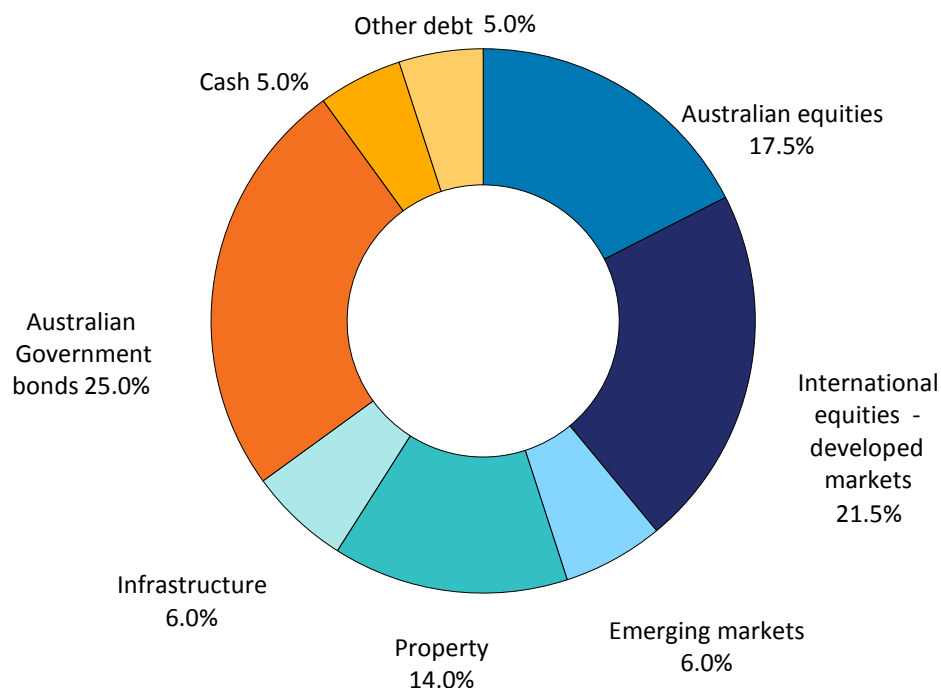
4.4 Return on investment

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 investment 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 policy and performance.

4.4.1 Investment policy

The MAIB's Preliminary 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. The investment policy adopted is 65 per cent growth assets and 35 per cent defensive assets. Figure 4.1 shows the MAIB's asset allocation by category as at 30 June 2016.

Figure 4.1 MAIB asset allocation as at 30 June 2016



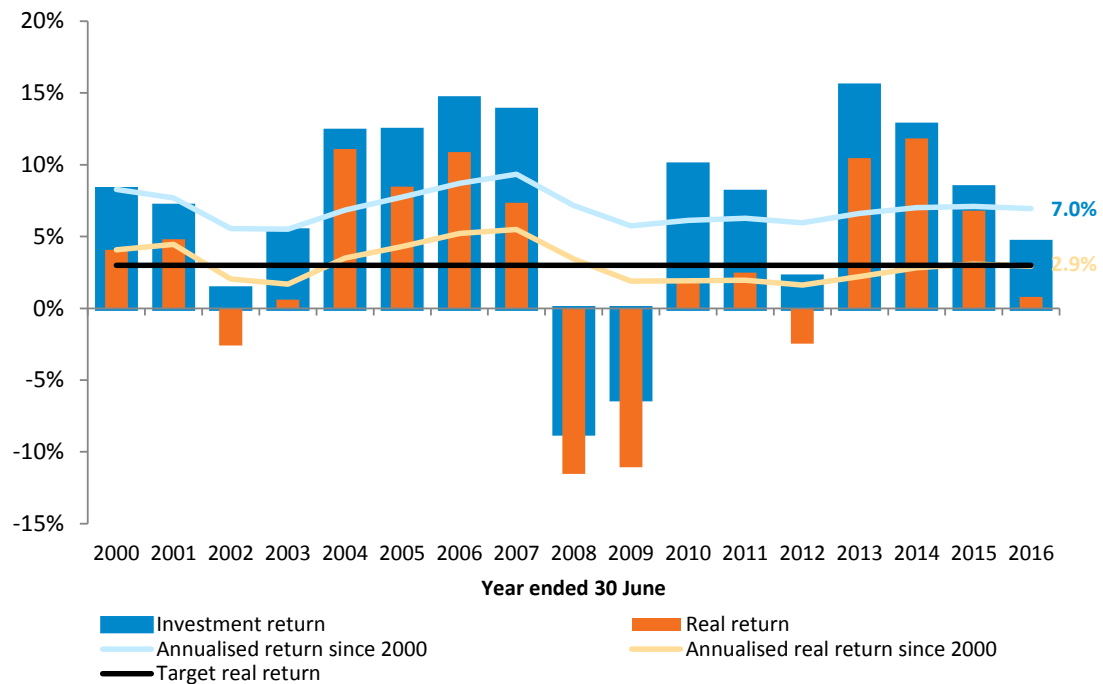
Source: MAIB (2017) Preliminary Submission, page 16.

4.4.2 Actual and forecast investment returns

A history of the MAIB's investment returns is shown in Figure 4.2. This Figure indicates that the average return since 2000 has been around seven per cent per annum.

In its Preliminary Submission, the MAIB notes that, since 2000, the real return on investments has been close to the three per cent target achieving the annual target in nine of the past 17 years, including three of the past four years. The periods between 2004 to 2007 and 2013 to 2015 make the largest contributions to the investment returns, with only 2008 and 2009 experiencing negative returns.⁵⁴

Figure 4.2 MAIB investment returns – financial years ending 30 June



Source: MAIB (2017) Preliminary Submission, page 17.

As noted in the MAIB's Preliminary Submission,⁵⁵ there is significant uncertainty regarding the economic outlook over the next four years due to the United Kingdom leaving the European Union and the election of a new President of the United States of America.

4.4.3 Return on investment – Regulator's conclusions

Noting the information presented above and Finity's interjurisdictional comparison of investment returns (Table 3.1), the Regulator accepts that, in the long-term, the MAIB's investment policy, in the context of its allocation between growth and defensive assets, achieves a satisfactory return for an acceptable level of risk.

4.5 Financial returns

The net assets in the funding ratio are reduced by dividends calculated but not yet paid. The amount of dividends required to be paid to shareholders, in this case the Government, therefore has a substantial impact on the MAIB's funding ratio. This section discusses the Government's dividend policy and analyses actual and forecast dividend payments.

⁵⁴ MAIB (2017) Preliminary Submission, page 17.

⁵⁵ MAIB (2017) Preliminary Submission, page 17.

4.5.1 Government policy on dividends

The GBE Act requires the MAIB to pay 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' dividend; plus
- such special dividends as deemed appropriate by the Government.

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.⁵⁶

4.5.2 MAIB actual and forecast dividends

A 10-year history of the actual dividends paid by the MAIB is shown in Table 4.1 together with estimates of dividends proposed until 30 June 2020.

Table 4.1 Dividend payments – actual 2006-07 to 2015-16 and forecast 2016-17 to 2019-20

Year	Operating result before tax \$m	Operating result after tax \$m	Ordinary dividend ⁽¹⁾ \$m	Special dividend \$m	Total dividends \$m
2006-07	150.25	113.08	42.95		42.95
2007-08	(39.33)	(22.70)	29.62	10.00	39.62
2008-09	(26.00)	(13.95)	23.10	10.00	33.10
2009-10	102.19	74.58	24.57		24.57
2010-11	69.50	51.67	20.25		20.25
2011-12	(43.56)	(27.05)	6.14		6.14
2012-13	207.77	147.45	23.22		23.22
2013-14	171.94	125.50	44.57		44.57
2014-15	137.19	99.87	47.69	100.00	147.69
2015-16	95.27	69.70	49.71		49.71
2016-17 est.	186.86	134.26	49.50		49.50
2017-18 est.	57.93	43.98	48.80		48.80
2018-19 est.	55.47	42.26	38.50		38.50
2019-20 est.	59.08	44.79	30.60		30.60
Total all years	1 184.55	883.43	479.22	120.00	599.22

Source: MAIB Annual Reports, MAIB preferred scenario (Scenario 1), and MAIB Statement of Corporate Intent 2016-17.

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. (For 2014-15 to 2016-17 the dividend was 60 per cent of after tax profits)
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.

⁵⁶ Finity (2017) *Motor Accidents Insurance Board Pricing Investigation 2017* report prepared for the Tasmanian Economic Regulator, page 20.

As noted in prior MAIB investigation reports:

... 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.

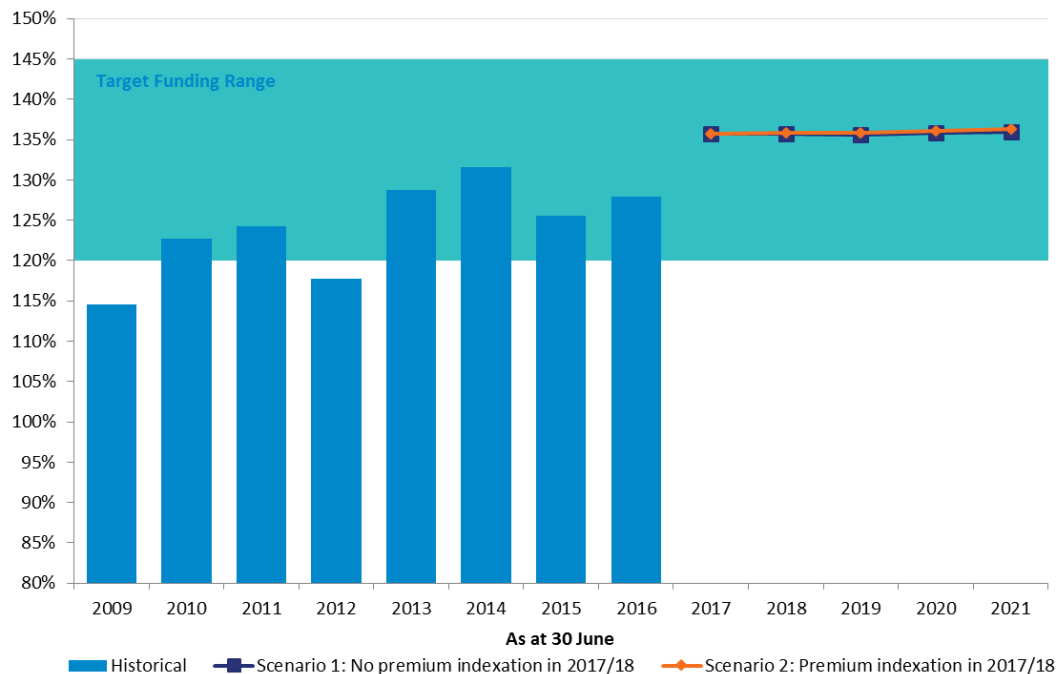
It would also be reasonable to review the appropriateness of the taking of any dividend if solvency falls below a particular threshold of, say, ten per cent of outstanding claims provisions. Such a decision should however take account of the circumstances including the mid-term and long-term prognosis 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.⁵⁷

As will be seen in Section 4.6 below, the solvency outlook is not of material concern for this investigation.

4.6 Solvency

Details of the movements in the MAIB's funding ratio since 2008-09 with the MAIB's projection to 30 June 2021 is provided in Figure 4.3. This Figure also shows the MAIB's projected funding ratios for the pricing period under the two scenarios presented in its Preliminary Submission.⁵⁸

Figure 4.3 Trends in the MAIB's projected funding ratio



Source: MAIB (2017) Preliminary Submission, page 34.

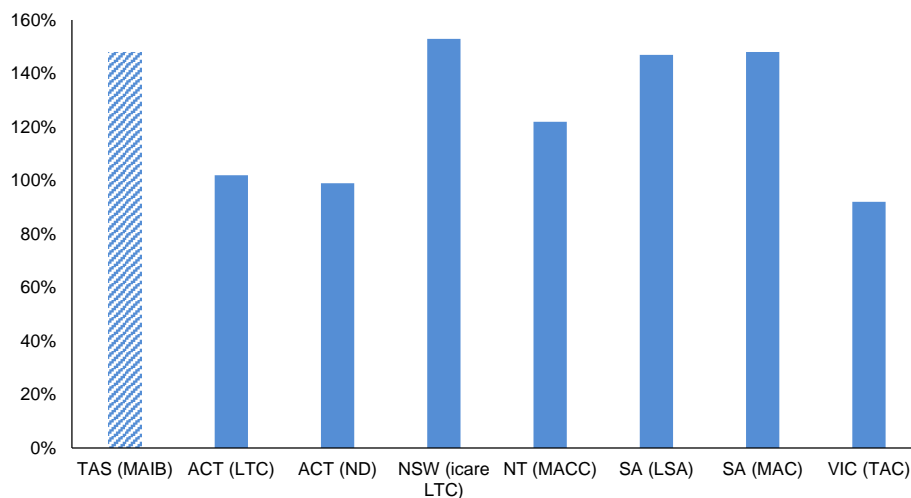
⁵⁷ First noted in GPOC (2003) *MAIB Pricing Policies Investigation - Final Report*, pages 64-65.

⁵⁸ MAIB (2017) Preliminary Submission, page 34.

The ratio of total assets to the net outstanding claims liability is used due to variations in funding ratio measures. The outcomes highlight the relatively conservative financial position consistently taken by the MAIB over an extended time period. Figure 4.3 also shows the MAIB expects that its solvency in the forecast years to be around the midpoint of its target funding range (ie 120 per cent to 145 per cent) irrespective of which scenario is adopted.

Figure 4.4 compares the MAIB's funding ratio with the funding ratios reported for other similar schemes.

Figure 4.4 Comparative funding ratios



Source: Finity (2017) *Motor Accidents Insurance Board Pricing Investigation 2017* report prepared for the Tasmanian Economic Regulator, page 17.

4.6.1 Solvency – Regulator's conclusions

The Regulator notes that, based on the above analysis, the MAIB's current and future solvency position is within both the MAIB's current funding ratio target range and the funding ratio target range that the Regulator accepts for the pricing period. Given this, the Regulator does not see any need to adjust premiums to improve the MAIB's solvency.

5 AVERAGE PREMIUM

5.1 Insurance profit

The MAIB's profit comes from:

- any explicit loading for profit (profit margin) included in premiums;
- any differences between actual claims costs, expenses and investment income and the assumptions made in the calculation of premiums⁵⁹; and
- the investment returns on shareholder funds.

This Chapter presents the Regulator's conclusions and recommendations on the profit margin to be added to the MAIB's break-even premium to deliver the average premium required for each year.

The Chapter also presents the Regulator's conclusions and recommendations in relation to premium indexation. Returns on shareholder funds was discussed in Chapter 4.

5.2 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 Crown) and 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 paying target dividends, as set out in the annual Statement of Corporate Intent agreed with the Portfolio Minister and the Treasurer.

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

The MAIB is a long-tail insurer with claims payments often made many years after the accident they relate to. Conversely, most commercial insurers provide short-tail insurance where claims costs can be accurately estimated at the time of the event and claims are finalised relatively quickly. As there is greater uncertainty and therefore greater risk in the ultimate claims costs paid by long-tail insurers such as the MAIB, it is prudent for the MAIB to adopt an expected profit margin that mitigates this risk as much as is reasonably possible.

Further, the MAIB operates in a single class of insurance – insurance for personal injury arising from motor vehicle accidents. This means that the MAIB is unable to benefit from diversification across insurance products. However, the MAIB is the statutory monopoly provider of this insurance product in Tasmania and is therefore not exposed to market risk. As

⁵⁹ Favourable differences increase profits, while unfavourable differences reduce profits.

a monopoly provider the MAIB is also a regulated business, and the Regulator has an obligation to consider the 'need for the monopoly provider to be financially viable'.⁶⁰

Another 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, it is again prudent for the MAIB to adopt a profit margin that reduces the impact of this variability.

The Regulator recognises that an important aspect of its review of the MAIB's pricing policies is that the outcomes should mirror that of a competitive market. However, regulatory decisions are usually neither as harsh (individual insurers would be squeezed out of the market if the average premium across the market fell below 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 so that it can make higher than 'normal' profits.

5.3 Profit margin in premiums

The Regulator's primary role is to consider the appropriate break-even premium plus a loading to reflect risk and provide an appropriate return for the MAIB's insurance business. The Regulator notes that, even if the break-even premium is set at an appropriate level, subsequent reserves arising from the insurance business at future years' end may vary from forecast, meaning that actual profit may vary from forecast.

As discussed in Chapter 3, the Regulator's recommended break-even premium is \$222.86 per annum exclusive of duty and GST. This is the minimum amount required to fully fund claim payments based on the assumptions and estimates underlying the determination of the break-even premium. While the probability of these estimates being inaccurate is symmetrical (ie there is an equal probability of outcomes being better than forecast or worse than forecast) shareholders have a legitimate expectation that returns will reflect the risks associated with the insurance business.

Insurers are also expected to maintain levels of capital sufficient to meet solvency requirements. While they receive investment returns on these capital reserves, the additional returns required to appropriately mitigate the insurance risk must be generated by a profit margin loading on the break-even premium.

The MAIB's Preliminary Submission states that it has selected a target profit margin of ten per cent above break-even costs, unchanged from the 2013 Investigation.⁶¹ This profit margin is projected to achieve a return on capital of approximately six per cent, which is near the lower bound of what a commercial insurer would likely seek. The MAIB's Preliminary Submission also notes that, in its 2013 Investigation Final Report, the Regulator concluded that a ten per cent profit margin was reasonable for the MAIB.⁶²

⁶⁰ Section 31(g) of the ER Act.

⁶¹ MAIB (2017) Preliminary Submission, page 22.

⁶² Tasmanian Economic Regulator (2013) *Investigation into the Motor Accidents Insurance Board's Pricing Policies - Final Report, July 2013*, page 83.

The target profit margin established by the MAIB considers a range of contributing factors, including:

- ❑ the requirements of the GBE Act;
- ❑ the previous assessment by the Regulator;
- ❑ 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.⁶³

The MAIB's Preliminary Submission also states that the proposed target profit margin was determined by modelling the insurance business' returns for a single year, making assumptions in relation to:

- ❑ the MAIB's break-even premium;
- ❑ the target after-tax return on capital;
- ❑ the target level of capital to support the MAIB's business;
- ❑ a target level of capital of 132.5 per cent, based on the mid-point of the MAIB Board's target range of 120 to 145 per cent;
- ❑ the claims payment pattern, and future outstanding claims liabilities; and
- ❑ consistency with the break-even premium calculations, plus a 20 per cent risk margin to maintain an appropriate actuarial reserve.⁶⁴

The MAIB's average expected premium to be collected during 2016-17 is \$276.57. Once GST is removed, and allowing for a one per cent revenue shortfall, the average premium from which the MAIB will fund its operations is \$248.91. The outcome of the MAIB's modelling indicates that, without any premium increase on 1 December 2017, the average premium will include a profit margin of \$26.05 or 10.5 per cent. This is within 0.5 per cent of the MAIB's ten per cent target profit margin.⁶⁵

The MAIB's Preliminary Submission also summarises profit margins provided in premiums in New South Wales, Queensland and Victoria, although the Regulator notes that there is limited publicly available information regarding the profit margins set in other Australian jurisdictions.

Until 2012, New South Wales published the assumed profit margins adopted by its CTP insurers (excluding catastrophic injury insurers), which indicated a profit margin of approximately eight per cent. However, lower than anticipated superimposed inflation over the past few years has resulted in profit margins for New South Wales insurers being relatively higher than was assumed when the premiums were set. Queensland's 2016 CTP scheme

⁶³ MAIB (2017) Preliminary Submission, page 90.

⁶⁴ Ibid, page 90.

⁶⁵ Ibid, page 22.

review found that, historically, an eight per cent profit margin has been assumed when assessing premiums.⁶⁶

Victoria has a no-fault CTP scheme underwritten by the government-owned Transport Accident Commission (TAC) and is therefore more comparable to Tasmania. The most recent available information on profit margins for the Victorian scheme is from a 2006 Essential Services Commission (ESC) review, which noted that the TAC's target profit margin was ten per cent.

In its report to the Regulator, Finity concluded that a target profit margin of around ten per cent is consistent with other government owned CTP insurers in Australia.⁶⁷ The Regulator does, however, note Finity's comment that a lower target profit margin would also be reasonable given the strength of the MAIB's financial position.⁶⁸

5.3.1 Profit margin – Regulator's conclusions and recommendations

The Regulator recognises 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 noted that the insurance profit margin balances pressure to keep motorists' premiums low with solvency and dividend requirements. A profit margin is also important in supporting the MAIB's ability to absorb solvency volatility and recover from a poor financial result without increasing premiums.⁶⁹

Based on these considerations, and Finity's comments, the Regulator recommends that the MAIB be allowed a 10 per cent profit margin. This decision is supported by Finity's analysis, which views a ten per cent profit margin as reasonable based on the experience of other government CTP insurers in Australia and the MAIB's financial position.

5.4 Revenue shortfall

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

The MAIB attributes⁷⁰ this revenue shortfall to the following factors:

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

⁶⁶ MAIB (2017) Preliminary Submission, page 22.

⁶⁷ Finity (2017) *Motor Accidents Insurance Board Pricing Investigation 2017* report prepared for the Tasmanian Economic Regulator, page 24.

⁶⁸ Ibid, page 25.

⁶⁹ Ibid, page 23.

⁷⁰ MAIB (2017) Preliminary Submission, page 90.

instalments). There may also be non-payment of a periodic registration but subsequent payment of the next periodic amount;

- '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 (eg for seasonal agricultural equipment).

The MAIB proposes maintaining a one per cent allowance for revenue shortfall in the profit margin, unchanged since the 2013 Investigation.

5.4.1 Revenue shortfall allowance – Regulator's conclusions and recommendations

In the 2013 Investigation, the Regulator considered it appropriate to make an allowance in the average premium for revenue shortfall and an allowance of one per cent over the recommended profit margin was provided for this purpose.

Taking account of the above factors, and the relative stability of the MAIB's operating environment since 2013, the Regulator again recommends a one per cent allowance in the average premium to allow the MAIB to recover any potential revenue shortfall.

5.5 Financial implications of the MAIB's pricing scenarios

This section presents the respective impact of the pricing scenarios outlined in the MAIB's Preliminary Submission on the MAIB financial position.

The MAIB's Preliminary Submission includes two scenarios which it has modelled based on its assumptions and proposals for the break-even premium and profit margin.⁷¹

Under the first scenario (Scenario 1) no indexation is applied to premiums on 1 December 2017, but premiums are allowed to increase in line with AWOTE for each of the premium years commencing on 1 December 2018, 1 December 2019 and 1 December 2020.

Under Scenario 1, the MAIB expects to:

- achieve a long-term profit margin on premiums of around 10.5 per cent increasing to around 12.5 per cent over the next four years, based on a real rate of return of three per cent per annum; and
- achieve an after-tax return on target capital of around 6.2 per cent increasing to around 6.7 per cent over the next four years.

Under Scenario 2, premiums increase in line with AWOTE from 1 December 2017 and for each of the following three years.

⁷¹ MAIB (2017) Preliminary Submission, page 23.

The MAIB expects that under this scenario, the proposed premium increases would:

- ❑ achieve a long-term profit margin on premiums of around 13.1 per cent increasing to around 15.0 per cent over the next four years, based on a real rate of return of three per cent per annum; and
- ❑ achieve an after-tax return on target capital of around 6.9 per cent increasing to around 7.6 per cent over the next four years.⁷²

The MAIB's preferred scenario is Scenario 1. This Scenario is forecast to produce a profit margin of 10.5 per cent for 2017-18 (which is close to the MAIB's 10 per cent target) with the profit margin expected to increase towards 12.5 per cent by 2020-21, mainly as a result of reductions in projected claim frequency. If growth in the number of registered vehicles was to slow to 1.25 per cent per annum over that time, then the projected reductions in claim frequency would be smaller and the profit margin expected to remain close to 10.5 per cent over the next four years.

The MAIB's current funding ratio is the mid-point of its target range of 120 to 145 per cent, and, under Scenario 1, is forecast to remain at that level over the four years to 2020-21.

Scenario 1 provides the flexibility to increase premiums to meet claims inflation. In the past the MAIB has rarely indexed premiums and allowing a maximum rate of indexation at the rate of AWOTE may not translate to actual increases at this level. This flexibility also mitigates against potential threats to premium rates from less than expected reductions to claim frequency and higher than expected impact on care costs from the full roll out of the National Disability Insurance Scheme (NDIS).⁷³

Finity agrees that the MAIB's adoption of Scenario 1 may not necessarily result in actual increases to premiums if claims experience is as expected or better than expected. Finity also notes that the return on capital generated in Scenario 1 is lower than the projected return on capital in the MAIB's Preliminary Submission to the 2013 Investigation, due to a lower profit margin, higher target funding ratio and lower valuation discount rate.⁷⁴

Finity concludes that the MAIB's target profit under Scenario 1 is reasonable, but points out that it is not explicitly linked to the financial position of the MAIB scheme. In some other CTP schemes, the Board has the ability to vary the profit margin to reflect factors outside the immediate break-even premium consideration, such as the desire to build or release capital, or to take account of some external event. Finity suggests that the MAIB may wish to consider such a policy in future.⁷⁵

Table 5.1 presents the MAIB's forecast of the financial implications arising from the adoption of its preferred scenario.

⁷² MAIB (2017) Preliminary Submission, page 24.

⁷³ Ibid, page 24.

⁷⁴ Finity (2017) *Motor Accidents Insurance Board Pricing Investigation 2017* report prepared for the Tasmanian Economic Regulator, page 24.

⁷⁵ Ibid, page 24.

Table 5.1 Financial impacts of the adoption of the MAIB's preferred scenario (Scenario 1)

	MAIB Scenario 1
Break-even premium (\$)	222.86
Average premium (\$)	248.91
Average after-tax profit in premium (1 December 2017 to 30 November 2021) (%)	11.4
Average return on target capital ^{Note 1} (1 December 2017 to 30 November 2021) (%)	6.4
Average return on shareholders' funds (1 December 2017 to 30 November 2021) (%)	8.4

Source: Data from (2017) MAIB Preliminary Submission.

Note 1: Target capital is assumed to be 132.5 per cent of the outstanding claims provision; the mid-point of the target range (120 to 145 per cent). This measure is considered to be a better measure of long-term sustainability than the return on shareholders' funds, given the fluctuations in actual capital held.

Table 5.2 presents the MAIB's estimated funding ratios under its preferred scenario. As can be seen, adopting this scenario has no adverse impact on the MAIB's funding ratios, which remain well within the target range (120 to 145 per cent) over the next four years.

Table 5.2 Forecast funding ratios – 2016-17 to 2020-21

Forecast funding ratios	2016-17 %	2017-18 %	2018-19 %	2019-20 %	2020-21 %
MAIB Scenario	135.7	135.8	135.7	135.8	135.9

Source: MAIB (2017) Preliminary Submission, page 94.

5.5.1 Financial implications of the MAIB's pricing scenarios – Regulator's conclusions

Noting Finity's advice, the Regulator accepts the financial implications arising from the adoption of MAIB's preferred scenario, Scenario 1. The Regulator considers that the profit margin, return on capital, return on shareholder's funds and the resultant forecast funding ratio are reasonable and consistent with past experience and expectations for a business such as the MAIB.

5.6 Historical average premiums

In its Preliminary Submission, the MAIB makes the following comments in relation to past premium increases:

- Price adjustments up to 2003-04 were required to meet increases in the MAIB's costs due to the introduction of the GST;
- The premium increase for 2004-05 was approximately half of the maximum allowable increase and over the following eight years up to 2012-13 (ie the last financial year before the Regulator's 2013 Investigation) premiums only increased once, in 2009-10; and
- Since the Regulator's 2013 Investigation, there have been two large premium reductions in 2013-14 and 2016-17. These reductions have resulted in a premium that is the lowest in Australia and which is lower than that paid for Class 1 vehicles in 2002-03. This reflects ongoing reductions in claim frequency.

Table 5.3 shows the premiums that have been charged for Class 1 vehicles under the MAIB scheme over the past 17 years relative to growth in average Australian wages over the same period, as determined by AWOTE.⁷⁶

Table 5.3 Premium history and comparison with AWOTE

Policy year (Starting 1 December)	Class 1 premium (includes GST but excludes stamp duty)	Percentage change (%)	Maximum allowable increase (AWOTE %)	Increase above/below AWOTE (%)
2000-01	\$271	4.6	3.6	1.0
2001-02	\$288	6.3	5.3	1.0
2002-03	\$307	6.6	5.6	1.0
2003-04	\$324	5.5	3.3	2.2
2004-05	\$332	2.5	4.9	-2.4
2005-06	\$332	0.0	4.6	-4.6
2006-07	\$332	0.0	4.8	-4.8
2007-08	\$332	0.0	3.6	-3.6
2008-09	\$332	0.0	4.5	-4.5
2009-10	\$344	3.6	3.6	0.0
2010-11	\$344	0.0	5.6	-5.6
2011-12	\$344	0.0	4.2	-4.2
2012-13	\$344	0.0	4.3	-4.3
2013-14	\$318	-7.6	5.1	-12.7
2014-15	\$318	0.0	2.6	-2.6
2015-16	\$318	0.0	2.4	-2.4
2016-17	\$294	-7.5	1.9	-9.5

Source: MAIB (2017) Preliminary Submission, page 76.

5.7 Maximum average premium – Regulator's recommendations

Taking account of the break-even premium, revenue shortfall allowance, benchmark levels of commercial profit and forecast financial impacts, the Regulator recommends a maximum average premium of \$248.91 effective from 1 December 2017.

The Regulator's recommended maximum average premium represents an average profit margin of ten per cent (plus one per cent loading) over the MAIB's proposed break-even premium of \$222.86.

⁷⁶ MAIB (2017) Preliminary Submission, page 76.

5.8 Premium indexation

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

Under its preferred scenario, Scenario 1, the MAIB is proposing that premiums not be indexed in December 2017, but then be inflated in line with Australian AWOTE for each of the three premium years between 1 December 2018 and 30 November 2021.

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 is used in preference to the Tasmania AWOTE index because of the Tasmanian index's small sample size and consequential greater volatility.⁷⁷

The Regulator notes that each year the MAIB's consulting actuary considers the MAIB's required annual premium pool to determine whether a premium increase up to the maximum allowance is warranted. Based on these assessments the MAIB has not increased premiums for some years and indeed has reduced its premiums in recent times. The Regulator considers this approach to be prudent and encourages the MAIB to continue this approach throughout the next pricing period.

5.8.1 Premium indexation – Regulator's recommendations

Based on the preceding discussion, the Regulator recommends that the MAIB's proposal that premiums not be indexed in December 2017, but be inflated by a maximum of the previous financial year AWOTE from 1 December 2018 until the end of the pricing period be accepted.

⁷⁷ Government Prices Oversight Commission (2000), *Investigation into the Pricing Policies of the Motor Accidents Insurance Board, Final Report, August 2000*, page 91 (Footnote 58).

6 RIDE-SOURCING SERVICES

This chapter discusses the treatment of vehicles used to provide ride-sourcing services. The Terms of Reference requires the Regulator to take into account the future classification of vehicles that are used to provide commercial ride-sourcing services (such as Uber).

The Regulator is also to consider the appropriateness of creating a new premiums class for ride-sourcing vehicles.

6.1 Background

As noted in Section 2.4.2, in 2016, the Tasmanian Government amended section 91E of the Taxis Act to allow vehicles to be used to provide ride-sourcing services. This amendment became effective on 7 November 2016 and ride-sourcing services have been permitted in Tasmania since that date. At present, Uber is the only ride-sourcing platform provider operating in Tasmania.

The Terms of Reference specifically requires the Regulator, when conducting its pricing investigation, to take into account the:

future classification of vehicles that are used to provide commercial ride-sourcing services, including the appropriateness of creating a new premiums class for such vehicles;

6.2 Treatment of ride-sourcing in other jurisdictions

Ride-sourcing services now operate legally in all Australian jurisdictions except the Northern Territory. The Northern Territory Government has confirmed its intention to introduce legislation allowing ride-sourcing operations in the Territory during this term of government.

The Regulator understands that while ride-sourcing has technically been legal in South Australia since 1 July 2016, negotiations between the South Australian Government and Uber regarding a suitable regulatory framework and licensing arrangements for ride-sourcing operations in South Australia have not yet reached an agreement.

In Victoria, Queensland and New South Wales, ride-sourcing vehicles currently pay the same premiums as standard private vehicles. However, following a recent review of CTP premium rates by the State Insurance Regulatory Authority (SIRA), from 1 July 2017 the New South Wales Government plans to introduce a dynamic premium pricing model for ride-sourcing vehicles. This would involve sourcing and analysing real time data from ride-sourcing operations to determine the times of day when ride-sourcing vehicles are on the road, the areas they travel in, how far they travel, and how often they are involved in accidents. This data will help to determine appropriate premium rates for individual ride-sourcing vehicles across New South Wales.

Queensland has also recently reviewed its CTP scheme and the Queensland Government has shown interest in adopting a dynamic premium pricing model similar to the model proposed in New South Wales.

The Victorian Government does not have any immediate plans to alter its CTP premium schedule, but has considered the possibility of introducing a new licence class for ride-sourcing vehicles in the future.

Western Australia and the Australian Capital Territory are the only two Australian jurisdictions so far to have introduced new CTP premium classes to accommodate ride-sourcing vehicles. In Western Australia, since 4 July 2016, ride-sourcing vehicles pay approximately 1.36 times the premium rate that standard private vehicles pay. The Insurance Commission of Western Australia (ICWA) reports that Uber feels this rate is too high and does not accurately reflect the insurance risk posed by the provision of ride-sourcing services. However, the ICWA considers it a fair and reasonable premium rate given the current lack of time-on-road and accident data for ride-sourcing vehicles in the state, and the fact that it is only 36.5 per cent of the premium rate paid by metropolitan taxis in Western Australia. Vehicle owners in Western Australia are free to choose which class of CTP premium they wish to pay when they register their vehicles, but any vehicle owner found to be providing a ride-sourcing service without the appropriate CTP insurance is ruled to be in breach of the ICWA's requirements regarding their insurance policy. To help promote education and compliance around the provision of ride-sourcing services in Western Australia, the ICWA collaborates with the Western Australian Department of Transport to collect and share data on ride-sourcing providers and conduct insurance spot checks on Western Australian vehicle owners.

Between 30 October 2015 and 31 March 2016, ride-sourcing vehicles in the Australian Capital Territory were allowed to pay standard private vehicle premiums. However, since 1 April 2016 these vehicles now pay between 1.10 and 1.51 times (average 1.4 times) the standard private vehicle premium depending on their CTP insurance provider. In order to determine appropriate premium rates for ride-sourcing vehicles, the Australian Capital Territory Treasury negotiated the confidential provision by Uber of various statistics on ride-sourcing operations in Australia and the USA (although the data provided by Uber did not contain any specific motor accident information regarding claim frequency or costs). The four private CTP insurance providers in the Australian Capital Territory worked with the Australian Capital Territory Treasury to analyse the data and determine the risk profile of ride-sourcing vehicles relative to standard private vehicles. The Australian Capital Territory CTP insurance providers agreed that premiums should be higher for ride-sourcing vehicles than for standard private vehicles as there are additional risks involved in providing a ride-sourcing service, with Australian Capital Territory CTP insurance providers noting that:

- ❑ ride-sourcing increased the annual kilometres travelled by ride-sourcing vehicles and hence increased the road exposure for passenger vehicles undertaking ride-sourcing activity;
- ❑ ride-sourcing increased the number of people in the car;
- ❑ drivers may drive on unfamiliar roads; and
- ❑ drivers are assumed not to be professional drivers, as it is not their main occupation.

However, these risks are offset somewhat by the fact that ride-sourcing vehicles must be less than ten years old and drivers:

- ❑ are not required to be on the road for long periods of time (eg 24 hours per day);
- ❑ must have a good driving history;
- ❑ are required to be over 21 years of age; and

- are rated by the customer and thus there is an incentive to drive carefully to attract business.

As such, the Australian Capital Territory Treasury and CTP insurance providers agreed that a premium rate for ride-sourcing vehicles of approximately 1.4 times the standard private vehicle premium in the Australian Capital Territory is fair and reasonable.

The introduction of separate premiums for ride-sourcing vehicles was accompanied by a review of taxi and hire car premiums in the Australian Capital Territory, with the aim of improving equity for all market participants. This review resulted in reductions of up to 13.1 per cent in taxi premiums and 53.9 per cent in hire car premiums across the four Australian Capital Territory CTP insurance providers.

6.3 Regulatory reform in Tasmania

As noted above, the Tasmanian Government amended the Taxis Act to allow vehicles to be used to provide ride-sourcing services. The Department of State Growth (State Growth) is also currently undertaking a comprehensive review of the existing legislative framework for taxi and hire services in Tasmania (including ride-sourcing services). The *Taxi and Hire Vehicle Industries Regulatory Review* is expected to result in the implementation of a new regulatory framework by early 2018.⁷⁸

A Review Consultation Paper was released for public comment in December 2016, with submissions in response to the paper closing on 31 March 2017. The Government expects the Review to be completed by the end of 2017.

The Regulator also notes that the 2017-18 Federal Budget allocated \$300 million over two years to establish the National Partnership on Regulatory Reform (NPRR) initiative. This initiative aims to incentivise state and local governments to lessen the regulatory burden on small business and remove other restrictions that are seen to hinder economic growth and competition.

While it is not yet known which industries or regions the NPRR will target as priorities for regulatory reform, based on advice provided to the Regulator by the Department of Treasury and Finance, it seems likely that the taxi, hire car and ride-sourcing industries will be included in the scope of the NPRR. The Regulator will therefore continue to monitor the development of the NPRR and the progress and outcomes of its regulatory reform agenda over the coming years.

6.4 MAIB Preliminary Submission

In its Preliminary Submission, the MAIB presented three options regarding premiums for ride-sourcing vehicles.⁷⁹

The first option is for ride-sourcing vehicles to remain as Class 1 vehicles. The MAIB notes that this is the simplest option and one that delivers the cheapest premiums to ride-sourcing vehicles. However, the MAIB also notes that this option would provide ride-sourcing operators

⁷⁸ http://www.transport.tas.gov.au/passenger/taxi/taxi_and_hire_vehicle_industries_regulatory_review

⁷⁹ MAIB (2017) Preliminary Submission, page 29.

with an advantage over traditional taxis and could result in ride-sourcing operators not paying premiums commensurate with their level of risk.

The second option proposed by the MAIB is for a new premium class to be created for ride-sourcing vehicles. The MAIB notes the following issues with this option:

- ❑ Lack of data to set the premium relativity;
- ❑ there is no mechanism to verify that ride-sourcing vehicles are being registered to the new class;
- ❑ the usage of ride-sourcing vehicles is likely to change during the year; and
- ❑ some ride-sourcing operators will only provide ride-sourcing services for a short period of time and on an ad hoc basis.

The MAIB estimates that if a risk reflective premium for ride-sourcing vehicles were charged, it would likely be 1.50 to 2.00 times the Class 1 premium. MAIB also identified that the lack of claims data for ride-sourcing vehicles was a risk to premium stability over time.

The final option proposed by the MAIB is for it to collect data on ride-sourcing vehicles operating in Tasmania and then make a recommendation about whether claims experience supports ride-sourcing vehicles being placed in a separate class and whether that entire class should be charged one premium or whether a distance-based premium may be possible. The MAIB states that in order to make a recommendation about a new premium it would require ride-sourcing operators to provide data on: which vehicles are providing ride-sourcing services; when they are being used; and the number of kilometres being driven per year. The MAIB notes that ride-sourcing operators currently have no obligation to provide any data to the Government.

In its preliminary submission, the MAIB recommends not creating a new premium class for ride-sourcing vehicles for the next four years. The MAIB bases this recommendation on the current lack of claim history data on ride-sourcing vehicles. The MAIB suggests that if sufficient data on ride-sourcing vehicles become available prior to the next investigation, then there may be a justification for changing the premium charged for them.

Table 6.1 summarises the respective advantages and disadvantages of each of these three options.

6.5 Issues raised during initial consultation

The Regulator received two submissions in response to the Terms of Reference relating to the issue of ride-sourcing vehicles. The first, from Uber, recommended that ride-sourcing vehicles continue to be classified as Class 1 Motor Cars and fully supported the MAIB's recommendation to not create a new vehicle class for ride-sourcing operators.

In its submission, Uber argued that existing evidence suggests that ride-sourcing vehicles have a comparable risk profile to private vehicles, as distinct from taxis and hire cars. Uber also considered that the dominant use of ride-sourcing vehicles is still private non-commercial use, with the submission mentioning that half of Uber drivers in Australia drive commercially for less than ten hours a week. Uber also argued that if any reclassification of ride-sourcing vehicles does occur, then it should be based on solid data.

The submission from the Tasmanian Taxi Council (TTC) referred to the fact that ride-sourcing services are considered to be taxi services for the purposes of GST. The TTC also argued that the MAIB's proposal to maintain ride-sourcing vehicles in Class 1 helps a new industry and provides an unfair advantage to new ride-sourcing operators compared to new taxi drivers.

Table 6.1 Summary of the MAIB's options for the treatment of ride-sourcing vehicles

Options	Description	Advantages	Disadvantages
1	Ride-sourcing vehicles remain as Class 1 vehicles	Avoids the administrative costs to the MAIB of creating a new premium class	Provides ride-sourcing operators an advantage over taxi operators The premium paid by ride-sourcing operators may not reflect the risk associated with that activity It may be difficult to extract data relating only to vehicles used for ride-sourcing purposes from the data relating to all Class 1 vehicles
2	Create a new premium class for ride-sourcing vehicles	Provides a robust basis to gather data on ride-sourcing vehicles to enable accurate risk assessments for this class in the future.	May involve additional administrative costs to MAIB to establish a new vehicle class
3	Collect data on ride-sourcing vehicles and review the claims experience (ride-sourcing vehicles remain as Class 1 vehicles until such time as claims experience supports an alternative treatment)	Provides the potential to obtain data that can subsequently be used to assess the level of risk associated with ride-sourcing activities	Risk that arrangements between MAIB and Department of State Growth do not provide the required data, or the data provided is inaccurate or incomplete.

6.6 Discussion and the Regulator's conclusions

The Regulator acknowledges the MAIB's and Uber's arguments that there is currently not enough claims data to accurately estimate the risk profile of ride-sourcing vehicles. The Regulator also notes that, as suggested by the MAIB and as indicated by interstate approaches, it is likely that a risk-reflective premium for ride-sourcing vehicles would be between that of a Class 1 Motor Car and a Class 6 Taxi or Luxury Hire Car.⁸⁰

The Regulator notes that in Uber B.V. v Commissioner of Taxation [2017] FCA110, the Federal Court of Australia decided that ride-sourcing is taxi travel. This decision was in relation to the requirements outlined in the *A New Tax System (Good and Services Tax) Act 1999* (GST Act). Specifically, the Federal Court considered whether the services provided by Uber drivers

⁸⁰ The premiums for taxis and hire cars (Class 6 vehicles) operating in Tasmania are currently 3.4 times the Class 1 premium.

constituted taxi travel within the meaning of section 144-5(1) of the GST Act and, therefore, whether Uber drivers were required to register for GST purposes.

The Regulator has considered this decision and notes that the principles it established relate to the specific requirements of the GST Act and do not impose any obligation on the Tasmanian Government to take this decision into account in formulating its policy position on the treatment of ride-sourcing. To this end, the Government introduced specific provisions in 2016 to facilitate the commencement of ride-sourcing services in Tasmania.

The Regulator is required by the Terms of Reference to identify and then suggest appropriate mechanisms to remove any cross-subsidies that exist in the current pricing structure. The Regulator's overarching priority in relation to this issue is, therefore, to suggest a structure which would allow the MAIB to gather data on the risk profile of ride-sourcing vehicles to then allow for an appropriate risk-based premium to be charged once enough data have been collected.

On page 28 of its Preliminary Submission, the MAIB, in the context of discussing its preference for retaining multiple motorcycle classes with the same relativity, states that:

Consolidating Classes 4, 5 and 20 would have no current impact for those motorcyclists but it would restrict the MAIB's ability to charge different premiums at a later date... Once classes are consolidated it would not be possible to compare experience between them. Aside from simplifying the system, having fewer classes provides minimal other benefits.

Noting the MAIB's arguments in favour of having multiple motorcycle premium classes, the Regulator has made the conclusion that a new vehicle class should be created for ride-sourcing vehicles. Initially, this vehicle class would be assigned the same relativity as Class 1 ie the Regulator recommends a combination of the MAIB's Options 2 and 3. The Regulator considers that the advantages of creating a new Class outweigh the disadvantages and provide the best opportunity to gather the necessary claims data required to assess ride-sourcing vehicles' risk profile over the next few years.

The Regulator also notes the MAIB's observation that there is currently no mechanism to verify that ride-sourcing vehicles are being registered to a new class (noting that ride-sourcing drivers are required to register as such with the Department of State Growth). Therefore, strategies to ensure that ride-sourcing vehicles are properly registered will need to be developed and implemented. The Regulator considers that setting the relativity of the new class at 1.00 will mean that ride-sourcing operators have no monetary incentive to incorrectly register their vehicle in a different category, noting that for the most part drivers will be using vehicles already registered as Class 1 vehicles to provide ride-sourcing services.

If the MAIB still considers that ride-sourcing vehicles are not being registered correctly in the new class, then alternative mechanisms can be explored. For instance, the Regulator notes that State Growth maintains a register of ride-sourcing vehicles in Tasmania. The Regulator understands that State Growth is in the process of ensuring that the MAIB has access to this information in the event of a claim relating to one of these vehicles. Alternatively, the MAIB could approach Uber, the only ride-sourcing platform provider currently operating in Tasmania, and negotiate an agreement whereby Uber directly provides MAIB with data on ride-sourcing vehicles being used in Tasmania, similar to the approach the Australian Capital Territory Government took. However, if this approach was followed, care would need to be taken to ensure that Uber use on mainland Australia and overseas approximated the use of ride-sourcing vehicles in Tasmania before deciding to rely on the data for Tasmanian CTP insurance purposes.

Given the potential rapid development of the ride-sourcing market in Tasmania, the Regulator considers that the four years before the next MAIB pricing investigation may be too long to wait before examining any ride-sourcing vehicle claims data to see whether a change to the premium relativity is necessary. However, any change to the pricing order would require the Regulator to conduct another pricing investigation and the Regulator notes that there are significant costs involved in undertaking a pricing investigation for the MAIB, the Government and, ultimately, motorists. Given this, the Regulator has made the conclusion that the Premiums Order should only be reopened if the MAIB informs the Minister that, in its view, sufficient data on ride-sourcing vehicles have become available to warrant the adjustment of the relativities for these vehicles prior to the commencement of the next investigation.

The Regulator also considers that the MAIB is sufficiently incentivised to raise this issue with the Minister if available data demonstrate that vehicles used to provide ride-sourcing services present a significantly greater risk than the risk relating to Class 1 vehicles.

The Regulator also considers that any decision to reopen the Premiums Order should take into account any significant changes to the regulatory framework resulting from the *Taxi and Hire Vehicle Industries Regulatory Review*.

6.7 Ride-sourcing - Regulator's Draft Report recommendations

Noting the discussion in Section 6.6, in its Draft Report the Regulator recommended a new class be created for ride-sourcing vehicles with the same initial premium relativity and maximum premium as Class 1 vehicles.

6.8 Discussion of issues raised during Draft Report consultation

The Regulator released its Draft Investigation Report for public consultation on 23 May 2017. Submissions in response to the recommendations and issues raised in the Draft Report closed on 13 June 2017. All three of the submissions that the Regulator received during this consultation period related to the issue of ride-sourcing.

The TTC submission in response to the Regulator's Draft Report expressed support for the recommendation to introduce a new class for ride-sourcing vehicles. The MAIB indicated in its submission that it was broadly accepting of the Regulator's recommendations on this matter, but noted that should the recommendation to implement a separate class for ride-sourcing services be maintained, it will need to be carefully implemented to mitigate against the potential for drivers to inadvertently register in the wrong class (ie in Class 1) and therefore be at risk of not being covered under the MA Act.

The Regulator acknowledges that this is a risk but does not consider it a significant risk. The Regulator understands that the Department of State Growth already maintains a register of ride-sourcing vehicles in Tasmania (as noted in Section 6.6) and conducts compliance activities. There are, therefore, processes already in place to ensure that vehicles (including ride-sourcing vehicles) are paying the appropriate MAIB premiums.

Uber's submission supported the Regulator's recommendation to set the initial premium relativity and maximum relativity for ride-sourcing vehicles at the same level as Class 1 vehicles, but raised several objections to the recommendation that a new class be created for ride-sourcing vehicles. Uber argued that maintaining this recommendation would:

- add an unnecessary regulatory burden on ride-sourcing vehicle owners; and
- mean that the MAIB will not be able to gather a statistically adequate quantity of accident and claims data for ride-sourcing vehicle owners to enable it to set appropriate premium rates for ride-sourcing vehicles before the commencement of the next pricing period (2021-25).

In its submission Uber also contends that continuing to classify ride-sourcing vehicles as Class 1 will provide greater stability for ride-sourcing vehicle owners in Tasmania, and for those considering taking up ride-sourcing, and is consistent with the primary use of driver-partners' vehicles. While the primary use of some driver-partners' vehicles may not differ markedly from the use of a Class 1 Motor Car, this will not be the case for all ride-sourcing vehicles, ie it is expected that there will be a great deal of variation in driver-partners' use of their vehicles for ride-sourcing purposes. The Regulator is of the view that the benefits of creating a separate class for ride-sourcing vehicles at this point outweigh the costs of doing so. In the longer term, this variable use will impact on accident/claims experience for ride-sourcing vehicles and will therefore have to be taken into account when determining the appropriate premium to apply to those vehicles.

The Regulator does not consider that creating a separate class for ride-sourcing vehicles would add any significant further regulatory burdens on ride-sourcing vehicle owners beyond those that already exist. Ride-sourcing vehicle owners in Tasmania must register with the Department of State Growth and pay MAIB premiums regardless of which class their vehicles are assigned to.

The Regulator recognises that a vehicle owner who decides to begin providing ride-sourcing services using a currently registered vehicle would need to change their premium class to maintain their CTP coverage.⁸¹ However, the Regulator understands that this change would be undertaken directly by the Department of State Growth, as outlined above, and would therefore not impose any burden on the vehicle owner. A newly purchased vehicle identified for use to provide ride-sourcing services would be registered under the new ride-sourcing premium class from the outset, meaning that no additional regulatory burden would be imposed in these cases.

The point raised by Uber regarding the collection of accident and claims data for ride-sourcing vehicles is a valid one. It is unknown whether sufficient data will become available to warrant changes to the premium rates for ride-sourcing vehicles over the next four years. There are, however, other circumstances that could potentially warrant a change to premium rates for ride-sourcing vehicles in the future, and the experience of other Australian jurisdictions suggests that the risk profile for ride-sourcing vehicles differs significantly enough from both standard private cars and taxis to justify the creation of a separate premium class. Rather than risk the possibility that other Tasmanian vehicle owners will end up cross-subsidising the premiums of ride-sourcing vehicle owners, the Regulator is of the view that a proactive approach should be taken to this issue by creating a separate class for ride-sourcing vehicles now. Creating a separate class now, and if during the upcoming pricing period the MAIB seeks the Minister for Infrastructure's consideration of reopening the Premiums Order if sufficient data become available, will allow the MAIB to make any necessary adjustments to premium rates for ride-sourcing vehicles without having to wait for the next pricing investigation.

⁸¹ As pointed out by the MAIB in its submission on the Regulator's Draft Report, it is critical from a CTP insurance perspective that vehicles are registered to the correct class to ensure a continuation of coverage.

Creating a separate premium class also aligns with the MAIB's current approach to Class 4, 5 and 20 motorcycles, as noted in Section 6.6.

Regarding the point raised by Uber that the Regulator's recommendations should provide greater stability for Tasmanian ride-sourcing vehicle owners, and Uber's objections more generally, the Regulator wishes to make it clear that its role in this pricing investigation is to ensure, as much as possible and as directed by the Terms of Reference, that all Tasmanian vehicle owners are paying fair and reasonable MAIB premiums which reflect their risk profiles and avoid cross-subsidies. In this situation, the Regulator's view is that creating a new classification for ride-sourcing vehicles mitigates the risk of ride-sourcing vehicle owners having their MAIB premiums cross-subsidised by other Tasmanian vehicle owners. The Regulator recognises and understands Uber's desire to establish a successful business presence in Tasmania, but the Terms of Reference do not allow the Regulator to make recommendations that it believes may benefit one class of vehicle owners at the expense of others.

6.9 Ride-sourcing - Regulator's final recommendations

Noting the discussion in Section 6.8, the Regulator remains firmly of the view that the most appropriate way for the MAIB to deal with ride-sourcing vehicles in Tasmania is for a new class to be created for ride-sourcing vehicles with the same initial premium relativity and maximum premium as Class 1 vehicles.

The Regulator notes that the MAIB may approach the Minister to seek a reopening of the Premiums Order if sufficient data on ride-sourcing vehicles become available to justify a change to the premium relativities for those vehicles prior to the next pricing investigation.

7 RELATIVITIES AND MAXIMUM PREMIUMS

7.1 Basis of the scheme

Chapter 5 provides the Regulator's analysis of an adequate profit margin in premiums and of the MAIB's proposed 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 Premiums Order, the *Economic Regulator (MAIB Premiums) Order 2013*, sets out the classes to which all registered vehicles are allocated.⁸² The standard motor car class (Class 1 Motor Car), having the largest number of vehicles, is given a relativity of 1.00, 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 states (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; and

... an appropriate mechanism to remove any cross-subsidies should it be considered desirable.

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

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

These conditions may include whether the vehicle is let for hire, or any other purpose for which the motor vehicle is used or intended to be used.⁸³

The Regulator notes that schemes in other jurisdictions use different methods to differentiate risk for the purposes of setting premiums, thereby providing a higher degree of risk differentiation in some 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 vehicle owner. In Tasmania, asylum seekers and pensioners are the only vehicle owners distinguished by demographic attributes.

As a consequence of the design of the Tasmanian CTP scheme, the Regulator acknowledges there may be cross-subsidies between classes. Under the Terms of Reference, the Regulator has been tasked with assessing the size of any cross-subsidies between classes and

⁸² A full list of the current vehicle classes is provided in Appendix F.

⁸³ See section 30(4) of the MA Act.

ascertaining the benefits and costs of these cross-subsidies. To minimise the potential for cross-subsidies between classes, the Regulator considers it desirable as a first principle that the premium relativities reflect, as closely as practicable, the claims costs attributable to each vehicle class.

However, there are practical problems in assessing the absolute value of any cross-subsidies. The main problem is obtaining sufficient data to unambiguously determine, and then forecast, the claims costs for a particular class based on historical data and trends. Many of the classes have a relatively small number of registered vehicles and a correspondingly small number of claims made, even over a five to ten year period. An added complication is 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. Any calculation based on recent claims expenses will therefore 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.

7.2 Impact of the previous investigation

7.2.1 Changes in relativities and premiums

In 2013 the Regulator recommended that the relativities for the following six classes of vehicles be adjusted as follows:

- ❑ Class 4, 5 and 20 Motorcycles from 1.28 up to 1.50;
- ❑ Class 6 Taxis and Chauffeured Hire Cars 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.

To implement the proposed relativities, the Regulator also recommended a phased in approach, with gradual change in the premium relativities of the six classes over the four year pricing period until the levels matched those proposed.

The MAIB notes that the Regulator's recommended relativity changes from the 2013 Investigation have largely been implemented. Class 6 is the only class where the recommendations have not been fully incorporated as, following a decision of the Government, there was no relativity increase in 2015-16.⁸⁴ Class 6 currently has a relativity of 3.40.

⁸⁴ MAIB (2017) Preliminary Submission, page 2.

7.3 Basis for cost allocation

7.3.1 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 discounts available to operators of both Class 1 Motor Cars and Class 2 Light Goods Vehicles).

Motor accidents may involve one or more vehicles, with varying degrees of liability. The issue of allocating costs between vehicles involved in an accident is fundamental in determining reasonable premium relativities.

The MAIB currently allocates claims costs to vehicle classes on the basis of fault. Where several vehicles are at fault, the cost is allocated according to the levels of responsibility. The main advantage of this method is that the cost of compensation is passed on to those parties who are actually causing (or largely responsible) for the accidents. However, this method relies on a level of judgement to determine the fault of the parties involved in an accident and can be criticised as being inconsistent with the philosophy of a no-fault scheme.

In December 2016, the MAIB's consulting actuary undertook its periodic review of premium relativities, comparing the outcomes using both fault and components as bases. Due to the large size and low frequency of future care claims, the actuary 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 three bases for evaluating the cost relativities:

- ❑ on a fault basis;
- ❑ on a fault basis with future care costs spread over all classes; and
- ❑ on a component basis (under this approach the relativities for Future Care and Non-Future Care costs are analysed and assigned a weighting of 25 per cent to Future Care relativities and 75 per cent to Non Future Care relativities).

The outcome of the MAIB's consulting actuary's review is given in Table 7.1, which compares the last four years' claims experience based on the three methods listed above together with the current premium relativities.

Table 7.1 Claims experience for 2012-13 to 2015-16

	Class of vehicle	Present relativity	Basis of claims experience ¹		
			Fault	Fault with future care costs spread ²	Component
1	Motor Car	1.00	1.00	1.00	1.00
2	Light Goods Vehicle	1.00	0.66	0.85	0.73
3	Heavy Goods Vehicle	1.58	1.25	1.62	1.42
4	Medium Motorcycle ³	1.51	2.62	3.39	2.81
5	Large Motorcycle ³	1.51	2.62	3.39	2.81
6	Taxi or Luxury Hire Car	3.40	5.88	7.61	5.85
7	Large Passenger Vehicle ³	2.59	2.26	2.92	2.67
8	Hire and Drive Vehicle ³	2.59	2.26	2.92	2.67
9	Caravan, Horse Float, Plant and Machinery (non- self-propelled)	0.13	0.00	0.00	0.01
10	Heavy Trailer	0.29	0.00	0.00	0.02
11	Mobile Crane	1.06	0.00	0.00	6.32
12	Restricted Registration Vehicle	0.14	0.14	0.18	0.12
13	Plant & Machinery (Self-Propelled)	0.38	0.30	0.39	0.26
14	Motor Trade Plate	1.06	0.00	0.00	0.00
15	Farm Tractor	0.38	0.05	0.07	0.13
16	Medium Passenger Vehicle	1.34	1.20	1.55	0.81
17	Small Motorcycle	0.50	0.84	1.08	0.77
18	Off Road & Recreational Vehicles	0.76	2.42	3.14	2.25
19	Short Term Permits	0.10	0.00	0.00	0.00
20	Medium Large Motorcycle ³	1.51	2.62	3.39	2.81
21	Vintage Motor Vehicle or Street Rod	0.10	0.01	0.01	0.01
22	Special Interest Vehicle	0.32	0.06	0.08	0.11

Source: Taylor Fry 2016 Premium Relativities Report, page 11.

Notes:

1. Ratio of average claims cost per vehicle over the four years to 2015-16 relative to Class 1.
2. There have only been eight future care claims over the past four years.
3. Some classes were combined for analysis due to similar experience ie Classes 4, 5 and 20 and Classes 7 and 8.

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'. For example, 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.

MAIB proposal

Based on recent claims experience, the MAIB has proposed changes to premium relativities for the following vehicle classes:

- ❑ Motorcycle (Classes 4, 5, 17 and 20);
- ❑ Taxi or Luxury Hire Car (Class 6);
- ❑ Motor Trade Plate (Class 14);
- ❑ Farm Tractor (Class 15);
- ❑ Medium Public Passenger Vehicle (Class 16);
- ❑ Off-road and Recreational Vehicle (Class 18); and
- ❑ Special Interest Vehicle (Class 22).

These proposed changes are considered in detail in Section 7.5, along with premium relativities for other classes of vehicles.

Table 7.2 shows the MAIB's proposed relativity for each class of vehicle.

Table 7.2 MAIB proposed premium relativities

	Class of vehicle	Present relativity	Proposed relativity
1	Motor Car	1.00	1.00
2	Light Goods Vehicle	1.00	1.00
3	Heavy Goods Vehicle	1.58	1.58
4	Medium Motorcycle	1.51	1.70
5	Large Motorcycle	1.51	1.70
6	Taxi or Luxury Hire Car	3.40	3.50
7	Large Passenger Vehicle	2.59	2.59
8	Hire and Drive Vehicle	2.59	2.59
9	Caravan, Horse Float, Plant and Machinery (non- self-propelled)	0.13	0.13
10	Heavy Trailer	0.29	0.29
11	Mobile Crane	1.06	1.06
12	Restricted Registration Vehicle	0.14	0.14
13	Plant & Machinery (Self-Propelled)	0.38	0.38
14	Motor Trade Plate	1.06	1.00
15	Farm Tractor	0.38	0.30
16	Medium Passenger Vehicle	1.34	1.25
17	Small Motorcycle	0.50	0.60
18	Off Road & Recreational Vehicles	0.76	1.00
19	Short Term Permits	0.10	0.10
20	Medium Large Motorcycle	1.51	1.70
21	Vintage Motor Vehicle or Street Rod	0.10	0.10
22	Special Interest Vehicle	0.32	0.25

Source: MAIB (2017) Preliminary Submission, page 80.

As in previous relativities reviews, the MAIB's 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 while spreading future care cost over all classes (maximum).

The MAIB's actuary then modified the average claims experience relativity based on the credibility of the recent claims experience to derive the proposed relativities outlined in Table 7.2.

In summary and as noted in the Regulator's 2013 Report:

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 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.⁸⁵

The Regulator therefore supports the continued use of fault as the preferred cost allocation method.

7.4 Other factors in determining relativities

In assessing premium relativities, the Regulator's view is that premiums should be set on a commercial basis and 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 risk of avoidance when premiums are high relative to vehicle usage and/or the likelihood of detection of non-payment.

In setting the maximum premiums for each class, the Regulator also expects that the MAIB will exercise its commercial judgment so as to maximise compliance and revenue collection within the limits of the Regulator's recommendations.

7.5 Discussion

7.5.1 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), as well as the benefits and costs of retaining any such cross-subsidies. The MAIB scheme, being a no-fault scheme, is based on a community rating for a class of vehicle rather than 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 claims experience relativities in the actuarial review;

⁸⁵ Tasmanian Economic Regulator (2013), *Investigation into the Motor Accidents Insurance Board's Pricing Policies, Final Report, July 2013*, pages 106-107.

and, where appropriate, the premium relativities in other jurisdictions to make an assessment on 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 would be. The Regulator will therefore recommend changes in premium relativities when the claims experience, and hence claims costs, is not fairly reflected in the premium collected for a given class relative to other classes of vehicle. An equitable and fair share of scheme costs, spread across classes of vehicle based on claims experience, benefits all motorists through minimal cross-subsidisation and relatively stable premium increases.

With these principles in mind, the Regulator's recommendations in relation to premium relativities, including the premium relativities for those classes of vehicle where the current premium relativity appears to not be a fair representation of the underlying claims costs, are considered in the following sections.

7.5.2 Class 1 – Motor Car

The Tasmanian Government amended section 91E of the Taxis Act to allow vehicles to be used to provide ride-sourcing services. This amendment became effective on 7 November 2016 and ride-sourcing services have been permitted in Tasmania since that date. This amendment also resulted in vehicles used to provide ride-sourcing services to be classified as Class 1 vehicles. The MAIB is not proposing changes to this arrangement.

As discussed in Chapter 6, the Regulator is recommending a new class be created for vehicles used to provide ride-sourcing services, with the maximum premium set at the same level as Class 1 Motor Car until such time as data about the risks associated with the use of vehicles for ride-sourcing purposes becomes available.

7.5.3 Class 2 – Light Goods Vehicle

At present, the premium relativity applied to Class 2 Light Goods Vehicle is 1.00 ie there is no difference in this premium compared to that applied to Class 1 Motor Car. When costs are allocated on a fault basis the relativity for Class 2 is 0.66, which rises to 0.85 when future care costs are spread over all classes.

Class 2 vehicles represent more than 20 per cent of total Tasmanian vehicles and this class is expected to grow. The consulting actuary recommends the relativity be left at 1.00 in view of the practical administration difficulties that would arise if this class had a lower premium. Furthermore, any change to relativity for this class will have a significant impact on premiums charged for other classes. Nonetheless, the Regulator notes that the MAIB intends investigating options that will allow this class to have a premium more closely reflecting risk in the future.⁸⁶

⁸⁶ Taylor Fry 2015 MAIB Relativities, page 15.

The Regulator considers the current relativity of 1.00 for Class 2 is appropriate and consistent with the relativities assigned in other jurisdictions for this class of vehicle, with only Western Australia having a relativity lower than 1.00.⁸⁷

7.5.4 Classes 4, 5, 17 and 20 – Motorcycles

As mentioned in Section 7.3.1.2, the MAIB proposes increasing the relativity for Classes 4, 5 and 20 from the current level of 1.51 to 1.70. This would represent an increase in comparative charges of 12.31 per cent if implemented. The MAIB also proposes increasing the relativity of Class 17 from 0.50 to 0.60. This would represent an increase in comparative charges of 20 per cent if implemented.

A submission received from the TMC in response to the MAIB's Preliminary Submission and the Terms of Reference acknowledged the extra risks associated with motorcycle use while highlighting several benefits including a lesser impact on road infrastructure.

The TMC's submission suggested that the class descriptions be reviewed to recognise the Learner Approved Motorcycle Scheme (LAMS) which is a category within the vehicle registration system. This would result in the changes to the description of motorcycle classes shown in Table 7.3.

Table 7.3 Motorcycle premium classes

Class	Existing description	TMS suggested description
4	A motorcycle that has an engine capacity exceeding 125cc but not exceeding 250cc	A motorcycle registered under LAMS that has an engine capacity which exceeds 125 cc
5	A motorcycle that has an engine capacity exceeding 700cc	A motorcycle with an engine capacity which exceeds 660 cc
17	A motorcycle that has an engine capacity not exceeding 125cc	No change
20	A motorcycle that has an engine capacity exceeding 250cc but not exceeding 700cc	A motorcycle that is not registered under LAMS that has an engine capacity which exceeds 125 cc but does not exceed 660 cc

The TMC also considered that the relativities should be reduced to 1.00, or, alternatively, that the relativities remain at the present level of 1.51.

As outlined in its Preliminary Submission, the MAIB is not proposing to change the motorcycle engine size ranges and has proposed an increase in relativities to further reduce cross-subsidies.

Motorcycle relativities and recent claims experience are considered below.

7.5.4.1 Relativities and claims cost

As shown in Table 7.1, when costs are allocated on a fault basis for Class 4 Medium Motorcycles, Class 5 Large Motorcycles, and Class 20 Medium-Large Motorcycles, the relativity for these combined classes is 2.62, which rises to 3.39 when future care costs are spread over all classes. For Class 17 Small Motorcycles, when costs are allocated on a fault

⁸⁷ Refer to Appendix E for comparable relativities in other jurisdictions.

basis the relativity for this class is 0.84, which rises to 1.08 when future care costs are spread over all classes.

The Regulator considers that relativities for motorcycles should reflect the costs of claims. The claims costs for motorcycle accidents tend to be high due to the lesser 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 accidents involving only a motorcycle. These latter accidents are not covered by fault-based common law schemes. Given this, it is not surprising that 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 motorcyclists involved in single vehicle accidents receive 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 claims costs.

7.5.4.2 Classes 4, 5, 17 and 20 relativities - Regulator's conclusions

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 motorcycle premiums. The Regulator considers that an increase in premium relativities from 1.51 to 1.70 for Classes 4, 5, and 20, and 0.50 to 0.60 for Class 17, is appropriate after taking into account the following factors:

- ❑ the cost of premiums in Tasmania compared to the cost of premiums in other States, acknowledging 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 number of unregistered motorcycles, and therefore motorcycles without MAIB cover.

Although Tasmanian motorcycle premiums remain relatively high compared to other jurisdictions, as discussed in previous pricing investigations, the re-classification of motorcycles into their current classes has helped in making Tasmanian motorcycle premiums more competitive. Furthermore, as noted above, premium relativities will inevitably differ between no-fault and common law schemes due to the exclusion of single vehicle accidents and accidents where the motorcyclist is at fault. A common law CTP scheme is therefore not required to make as many payments as a no fault scheme when a motorcycle is involved in an accident. The Regulator appreciates that this is the same conclusion that has been reached in previous investigations and that some stakeholders do not agree with this view. However, the Regulator considers that the evidence it has analysed continues to support this position, based on a fault allocation basis, and it has not seen any new evidence to suggest that it should change its view.

7.5.4.3 Classes 4, 5, 17 and 20 relativities - Regulator's recommendations

As suggested by the TMC, the Regulator recommends that, during the 2017-2021 pricing period, the MAIB review the motorcycle premium class descriptions with reference to LAMS and engine capacity.

The outcomes from this review would then be used by the MAIB, and subsequently the Regulator, to consider the future treatment of these vehicles.

7.5.5 Class 6 – Taxi or Luxury Hire Car

When future care costs for the past four years are spread over all classes, the claims experience relativity for Class 6 vehicles is 7.61. While this number is lower under a fault allocation method (5.88), it is still much higher than the present premium relativity. This seems intuitively reasonable as the higher claims experience for Class 6 vehicles results from these vehicles being on the road more than other vehicles.

As shown in Appendix E, premium relativities in other jurisdictions for vehicles used for these purposes range from 2.81 in the Northern Territory to 14.29 in the Australian Capital Territory. In states with fault-based schemes, the relativity tends to be around 12 while in the no-fault schemes the relativities are lower.

7.5.5.1 Class 6 relativity – Regulator's conclusions

The Regulator considers that, even though claims experience has improved, the present relativity is not sufficient to meet claims costs. The Regulator therefore recommends an increase in relativity for vehicles in this Class from 3.40 to 3.50. This would represent an increase in comparative charges of 2.8 per cent if implemented and accords with the consulting actuary's assessment and the MAIB's Preliminary 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 a premium increase of 0.73 per cent per annum, independent of any other increases.

7.5.5.2 Class 6 relativity – Regulator's recommendations

Noting that taxis and luxury hire cars are currently in a single class, and based on further consideration of this issue following the release of its Draft Report, the Regulator recommends that the MAIB gathers data during the next pricing period to determine whether taxis and luxury hire cars should continue to be in the same class or whether the claims experience with luxury hire cars is sufficiently different from taxis to warrant a separate class being created for those vehicles.

7.5.6 Class 14 – Motor Trade Plate

The experience over the last four years for Class 14 vehicles has been particularly favourable. The MAIB is proposing to reduce the premium relativity from 1.06 to 1.00, on the basis that these plates mostly relate to Class 1 vehicles.

7.5.6.1 Class 14 relativity – Regulator's recommendations

Given that the majority of motor trade plates relate to Class 1 vehicles and the recent claims experience, the Regulator recommends reducing the relativity for vehicles in this Class to 1.00.

7.5.7 Class 15 – Farm Tractor

As a result of favourable claims experience for Class 15 vehicles, the MAIB is proposing a reduction of premium relativity from 0.38 to 0.30. With more than 6 000 farm tractors registered, there is sufficient historical information to support a premium relativity reduction.

7.5.7.1 Class 15 relativity – Regulator's recommendations

In light of the recent claims experience, the Regulator recommends reducing the relativity for vehicles in this Class to 0.30.

7.5.8 Class 16 – Medium Public Passenger Vehicle

When future care costs for the past four years are spread over all classes, the claims experience relativity for Class 16 vehicles is 1.55. The MAIB is proposing to reduce the premium relativity from 1.34 to 1.25 on the grounds that over the past sixteen years there have not been any future care claims relating to this class.

7.5.8.1 Class 16 relativity – Regulator's recommendations

Given the absence of Future Care claims for vehicles in this Class, the Regulator recommends reducing the relativity for vehicles in this Class to 1.25.

7.5.9 Class 18 – Off-road and Recreational Vehicle

The current premium relativity for this class of vehicle is 0.76. As part of the last three pricing investigations, the Commission and the Regulator have recommended a maximum premium relativity of 1.00. As the name of the class suggests, these vehicles tend to be used 'off-road'. This makes policing the registration of these vehicles difficult. If premiums were to be raised too high, many owners may decide not to register these vehicles. However, while the driver of an unregistered vehicle is not covered by the MAIB, any passengers or pedestrians they injure in an accident are covered. The MAIB therefore remains exposed even when a contribution is not made to the premium pool.

7.5.9.1 Class 18 relativity – Regulator's recommendations

To reduce cross-subsidies, the Regulator recommends increasing the relativity for vehicles in this Class to 1.00, as recommended in previous pricing investigations.

7.5.10 Class 22 – Special Interest Vehicle

This class of vehicle has had favourable claims experience over the last four years. In considering the claims experience over the longer term, the MAIB is proposing to reduce the premium relativity from 0.32 to 0.25.

7.5.10.1 Class 22 relativity – Regulator's recommendations

In light of the recent claims experience, the Regulator recommends reducing the relativity for vehicles in this Class to 0.25.

7.5.11 Other classes (3, 7, 8, 9, 10, 11, 12, 13, 19, and 21)

There is no evidence of a systemic change to claims experience for vehicles in any of the remaining classes.

7.5.11.1 Classes 3, 7, 8, 9, 10, 11, 12, 13, 19, and 21 - Regulator's recommendations

The MAIB has not proposed changing the premium relativities for any of these classes, and the Regulator does not recommend changes to the relativities for any of these classes.

7.6 Premium relativities - summary of Regulator's recommendations

Based on the discussion in sections 7.5.1 – 7.5.11 inclusive and the discussion in Section 7.5, the Regulator recommends that the following premium relativity changes be made:

- ❑ Class 4, 5 and 20 Motorcycles - increase from 1.51 to 1.70;
- ❑ Class 6 Taxi or Luxury Hire Car - increase from 3.40 to 3.50;
- ❑ Class 14 Motor Trade Plate - decrease from 1.06 to 1.00;
- ❑ Class 15 Farm Tractor - decrease from 0.38 to 0.30;
- ❑ Class 16 Medium Public Passenger Vehicle - decrease from 1.34 to 1.25;
- ❑ Class 17 Small Motorcycle - increase from 0.50 to 0.60;
- ❑ Class 18 Off-road and Recreational Vehicle - increase from 0.76 to 1.00; and
- ❑ Class 22 Special Interest Vehicle - decrease from 0.32 to 0.25.

7.7 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 from offering this flexibility to motorists.

As noted in previous pricing investigations, the Regulator's view is that the MAIB should be compensated for any revenue foregone as well as for the additional administration costs incurred. These are principally agency and merchant fees paid to cover the Motor Registry's collection costs.

Investment income is a vital part of the MAIB's business and the average premium calculated in Chapter 5 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 MAIB is revenue neutral. The surcharge is currently six per cent for quarterly registrations and three per cent for half-yearly registrations and the MAIB does not propose to change to these surcharges during the upcoming pricing period.

7.7.1 Periodic registrations – Regulator's recommendations

The Regulator recommends that the current surcharges for periodic registrations, in percentage terms, are appropriate maximum surcharges for the next pricing period.

7.8 Discounts

7.8.1 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 eligible asylum seekers and eligible pensioners.

Contrary to the situation that exists with a number of other government businesses that provide discounts to eligible customers, the MAIB's discount is not funded by the Government through a community service obligation (CSO).

The MAIB's Preliminary Submission notes that the number of vehicles receiving a discount has increased from 98 000 to 105 000 over the past four years, which is consistent with overall growth in Class 1 and 2 registrations.⁸⁸

The average cost per discount vehicle as a percentage of non-discount per vehicle costs, on a fault basis and including future care claims, is 107 per cent. Excluding future care claims raises this percentage to 146 per cent, ie over the past four years, the cost per vehicle for discount customers has been 46 per cent higher than for non-discount customers.

The Regulator understands that this outcome has been driven by a 70 per cent higher claim frequency for discounted customers as compared to non-discount customers,⁸⁹ which is consistent with observations made during the previous pricing investigation.

This outcome indicates that the discount provided to asylum seekers and pensioners as a whole represents a cross-subsidy.

The Minister for Infrastructure and the Treasurer have signed a Ministerial Charter with the MAIB. This charter notes that the Portfolio Minister and the Treasurer expect the MAIB to provide discounts to qualifying pensioners.⁹⁰ Without any change to Government policy, this cross-subsidy will continue to exist.

7.8.2 Level of discount

As discussed above, the MAIB currently provides a 20 per cent discount to private motor vehicles and light goods vehicles registered in the names of eligible asylum seekers and eligible pensioners. Changes in the proportion of discount-registered vehicles to total registered vehicles in particular therefore have a direct impact on the MAIB's revenue.

In general, the appropriate level of discount should be consistent with the relative risk level of the group receiving the discount. However, as presented above, this is not straight-forward as

⁸⁸ MAIB (2017) Preliminary Submission, page 30.

⁸⁹ Ibid, page 30.

⁹⁰ Ministerial Charter, Motor Accidents Insurance Board, January 2012, page 5.

recent experience suggests that claims frequency is higher for discount customers than for non-discount customers.

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 social obligations. Increasing numbers of discount customers may start to tip the balance in favour of the financial needs of the MAIB, particularly if this impacts on solvency requirements as discussed in Chapter 4. Increased pressure on solvency may require that either premiums increase to compensate or that the Government considers providing a CSO payment to directly fund discounts (similar to that provided to other GBEs). This latter approach would be preferable in terms of minimising the impact of the cross-subsidy on non-discount customers.

The MAIB is not proposing any changes to the 20 per cent discount over the next four years.

7.8.3 Discount – Regulator's recommendations

The Regulator recommends that the 20 per cent discount continue to apply over the pricing period.

The Regulator also recommends that the MAIB continue to collect data on the split between discount customers and non-discount customers to inform the Regulator's consideration of this issue in the future.

7.9 Maximum premiums – Regulator's recommendations

Noting the Regulator's recommended premium relativities as set out in Section 7.6, the Regulator's recommended maximum premiums to apply from 1 December 2017 are:

- ❑ the maximum annual premiums in accordance with Table 7.4;
- ❑ the maximum half-yearly premiums equal to one half of the maximum annual premiums⁹¹ plus three per cent (rounded to the nearest five cents); and
- ❑ the maximum quarterly premiums equal to one quarter of the maximum annual premiums plus six per cent (rounded to the nearest five cents).

These maximum premiums include the incremental relativity adjustments for Classes 4, 5, 6, 14, 15, 16, 17, 18, 20, and 22.

As outlined in Section 5.8, the Regulator recommends that all maximum premiums (being paid either annually, half-yearly or quarterly) be escalated annually from 1 December 2018 by the annual change in Australian AWOTE, except for:

- ❑ Classes 4, 5 and 20 (Motorcycles), where the maximum premiums, excluding duty, be increased from 1 December 2018 by 3.01 per cent per annum plus the proportional change in AWOTE per annum;

⁹¹ 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.

- ❑ Class 6 (Taxi or Luxury Hire Car), where the maximum premiums, excluding duty, be increased from 1 December 2018 by 0.73 per cent per annum plus the proportional change in AWOTE per annum;
- ❑ Class 14 (Motor Trade Plate), where the maximum premiums, excluding duty, change from 1 December 2018 by the net of a 1.45 per cent per annum decrease plus the proportional change in AWOTE per annum;
- ❑ Class 15 (Farm Tractor), where the maximum premiums, excluding duty, change from 1 December 2018 by the net of a 5.74 per cent per annum decrease plus the proportional change in AWOTE per annum;
- ❑ Class 16 (Medium Public Passenger Vehicle), where the maximum premiums, excluding duty, change from 1 December 2018 by the net of a 1.72 per cent per annum decrease plus the proportional change in AWOTE per annum;
- ❑ Class 17 (Small Motorcycle), where the maximum premiums, excluding duty, be increased from 1 December 2018 by 4.66 per cent per annum plus the proportional change in AWOTE per annum;
- ❑ Class 18 (Off-road and Recreational Vehicle), where the maximum premiums, excluding duty, be increased from 1 December 2018 by 7.1 per cent per annum plus the proportional change in AWOTE per annum; and
- ❑ Class 22 (Special Interest Vehicle) where the maximum premiums, excluding duty, change from 1 December 2018 by the net of a 5.98 per cent per annum decrease plus the proportional change in AWOTE per annum.

The Regulator notes that if the MAIB's target funding ratio exceeds the target range during the 2017-2021 pricing period, the MAIB will be in a position to consider not increasing premiums to the maximums proposed in the 2017 premium order.

Table 7.4 The Tasmanian Economic Regulator's recommended maximum premiums (including GST and duty) for the period 1 December 2017 to 30 November 2018

Class	Vehicle Description	Present Premium	Recommended Maximum Premium from 1 Dec 2017
1	Motor Car	314	314
	Discounted premium for eligible asylum seekers and pensioners	255	255
2	Light Goods Vehicle	314	314
	Discounted premium for eligible asylum seekers and pensioners	255	255
3	Heavy Goods Vehicle	485	485
4	Medium Motorcycle	465	478
5	Large Motorcycle	465	478
6	Taxi or Luxury Hire Car	1 021	1 028
7	Large Public Passenger Vehicle	780	780
8	Hire and Drive Vehicle	780	780
9	Caravan, Horse Float, Plant and Machinery (non-self-propelled)	59	59
10	Heavy Trailer	106	106
11	Mobile Crane	331	331
12	Restricted Registration Vehicles, including farm motorcycles	61	61
13	Plant and Machinery (self-propelled)	131	131
14	Motor Trade Plate	331	327
15	Farm Tractor	131	125
16	Medium Public Passenger Vehicle	415	408
17	Small Motorcycle	167	174
18	Off-road and Recreational Vehicle	242	257
19	Short Term Unregistered Vehicle	49	49
20	Medium-Large Motorcycle	465	478
21	Vintage Motor Vehicle or Street Rod	49	49
22	Special Interest Vehicle	115	109
23 (NEW)	Ride-sourcing Vehicle	n/a	314

APPENDIX A I: TERMS OF REFERENCE

ECONOMIC REGULATOR ACT 2009

2017 INVESTIGATION INTO THE PRICING POLICIES OF THE MOTOR ACCIDENTS INSURANCE BOARD

TERMS OF REFERENCE

The Terms of Reference for the investigation to be conducted by the Tasmanian Economic Regulator (the Regulator) 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 Enterprises Act 1995*, the principal purpose 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 the MAIB's Ministerial Charter, the MAIB is required by the Portfolio Minister and the Treasurer to comply with the following strategic expectations:

- ❑ 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;
- ❑ 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 persons injured in motor vehicle accidents involving Tasmanian-registered vehicles, and persons injured in accidents in Tasmania involving interstate motor vehicles who require daily care.

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 2017. 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:

1. the scope and intent of the *Motor Accidents (Liabilities and Compensation) Act 1973*;
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. The Regulator should especially examine cross subsidies as they relate to:
 - a) class 6 and class 16 in Schedule 1 of the current Pricing Order, the *Economic Regulator (MAIB Premiums) Pricing Order 2013*; and
 - b) motorcycle premium classes, including the potential to rationalise the existing classes.
3. an appropriate mechanism to remove any cross-subsidies should it be considered desirable;
4. the appropriateness of the MAIB using current insurance industry prudential requirements as a benchmark to measure long-term sustainability;
5. 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;
6. the appropriateness of current claim liability valuations;
7. the loading required on periodic premiums to ensure that there is no net impact on MAIB's revenue;
8. the future classification of vehicles that are used to provide commercial ride sourcing services, including the appropriateness of creating a new premiums class for such vehicles; and

9. whether the current set of vehicle classes is appropriate given the actuarial estimates of claims made to the MAIB.

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 persons injured in motor vehicle accidents involving Tasmanian-registered vehicles, and persons injured in accidents in Tasmania involving interstate motor vehicles who require daily care, during the period of four years after the expiry of the current Pricing Order.

APPENDIX A2: COMPLIANCE WITH THE TERMS OF REFERENCE

Reference	Requirement	Sections/Chapters of this Report
1	The scope and intent of the MA Act.	2.2, 2.3, 2.4, 3.4, 3.5, 3.6, 3.7 and 7.1
2	Any cross-subsidies in the pricing structure, especially in relation to different vehicle classes and risk types, and the benefits and costs of retaining them (particularly for Class 6 and Class 16 vehicles, and motorcycle classes and the potential to rationalise them).	6.6, 7.1, 7.5 and 7.8
3	Mechanism to remove cross-subsidies if desirable.	6.6, 7.1, 7.5 and 7.8
4	The appropriateness of the MAIB using current insurance industry prudential requirements as a benchmark to measure long term sustainability.	2.3, 4.2 and 4.3
5	The MAIB funding the Road Safety Advisory Council and the Injury Prevention and Management Foundation.	3.7
6	The appropriateness of current claim liability valuations.	4.3
7	The loading required on periodic premiums to ensure that there is no net impact on MAIB's revenue.	5.4 and 7.7
8	The future classification of vehicles that are used to provide commercial ride-sourcing services, including the appropriateness of creating a new premiums class for such vehicles.	2.4 and Chapter 6
9	Whether the current set of vehicle classes is appropriate given the actuarial estimates of claims made to the MAIB.	7.3 and 7.9

APPENDIX B: FINANCIAL FORECASTS

MAIB Proposal

Scenario 1: Australian AWOTE increase each year from 1 December 2018 onwards.

	2013	2014	2015	2016	2017	2018	2019	2020	2021
	\$000's	\$000's	\$000's	\$000's	\$000's	\$000's	\$000's	\$000's	\$000's
Operating Statement									
Earned Premium	139,143	139,539	134,465	137,755	138,511	133,957	136,773	142,817	149,331
Reinsurance Premium	(5,923)	(6,025)	(5,840)	(5,809)	(5,855)	(6,083)	(6,513)	(6,775)	(7,049)
Net Earned Premium	133,220	133,514	128,625	131,946	132,656	127,874	130,260	136,042	142,282
Gross claims cost	(87,001)	(124,272)	(104,019)	(99,579)	(38,974)	(138,661)	(148,186)	(154,795)	(160,599)
Third party & reinsurance recoveries	3,514	4,767	3,696	7,377	2,923	2,390	2,472	2,431	2,378
Underwriting expenses	(2,644)	(2,631)	(2,798)	(2,805)	(2,941)	(2,960)	(3,049)	(3,141)	(3,235)
Unexpired risk expense	(1,331)	(912)	(912)	2,179	(1,337)	(2,254)	427	1,636	960
Underwriting Result	45,758	10,466	24,592	39,118	92,327	(13,611)	(18,076)	(17,827)	(18,214)
Administration expenses	(6,877)	(6,259)	(6,350)	(6,107)	(6,785)	(6,902)	(7,093)	(7,292)	(7,494)
Foundation	(680)	(55)	(585)	(689)	(880)	(900)	(1,000)	(1,000)	(1,100)
Road safety advisory council & SES	(3,785)	(3,791)	(3,843)	(3,974)	(4,105)	(4,215)	(4,343)	(4,471)	(4,600)
Total Expenses	(11,342)	(10,105)	(10,778)	(10,770)	(11,770)	(12,017)	(12,436)	(12,763)	(13,194)
Other income	460	587	491	1,063	500	515	530	545	561
Net Investment Income	172,891	170,994	122,888	65,854	105,799	83,042	85,453	89,122	93,328
Operating Result before tax	207,767	171,942	137,193	95,265	186,856	57,929	55,471	59,077	62,481
Tax Expense	(60,322)	(46,444)	(37,328)	(25,562)	(52,596)	(13,947)	(13,210)	(14,292)	(15,313)
Operating Result after Tax	147,445	125,498	99,865	69,703	134,260	43,982	42,261	44,785	47,168
Other Comprehensive Income	723	(315)	446	(1,151)	-	-	-	-	-
Total Operating Result	148,168	125,183	100,311	68,552	134,260	43,982	42,261	44,785	47,168
Financial Position									
Shareholders Funds	382,416	484,380	440,121	460,981	545,535	531,870	526,902	532,750	546,534
Gross Outstanding claims liability	901,916	952,683	976,499	1,005,466	969,049	1,018,697	1,069,995	1,121,084	1,173,141
Return on shareholders' funds	47.6%	28.9%	21.7%	15.2%	26.7%	8.2%	8.0%	8.5%	8.7%
Funding Ratio	128.8%	131.6%	125.5%	127.9%	135.7%	135.8%	135.7%	135.8%	135.9%

Scenario 2: Australian AWOTE increase each year from 1 December 2017 onwards.

	2013	2014	2015	2016	2017	2018	2019	2020	2021
	\$000's	\$000's	\$000's	\$000's	\$000's	\$000's	\$000's	\$000's	\$000's
Operating Statement									
Earned Premium	139,143	139,539	134,465	137,755	138,511	134,723	139,962	146,296	152,986
Reinsurance Premium	(5,923)	(6,025)	(5,840)	(5,809)	(5,855)	(6,083)	(6,513)	(6,775)	(7,049)
Net Earned Premium	133,220	133,514	128,625	131,946	132,656	128,640	133,449	139,521	145,937
Gross claims cost	(87,001)	(124,272)	(104,019)	(99,579)	(38,974)	(138,661)	(148,186)	(154,795)	(160,599)
Third party & reinsurance recoveries	3,514	4,767	3,696	7,377	2,923	2,390	2,472	2,431	2,378
Underwriting expenses	(2,644)	(2,631)	(2,798)	(2,805)	(2,941)	(2,960)	(3,049)	(3,141)	(3,235)
Unexpired risk expense	(1,331)	(912)	(912)	(2,179)	(1,337)	(1,020)	692	1,703	1,032
Underwriting Result	45,758	10,466	24,592	39,118	92,327	(11,611)	(14,622)	(14,281)	(14,487)
Administration expenses	(6,877)	(6,259)	(6,350)	(6,107)	(6,785)	(6,902)	(7,093)	(7,292)	(7,494)
Foundation	(680)	(55)	(585)	(689)	(880)	(1,000)	(1,000)	(1,000)	(1,100)
Road safety advisory council & SES	(3,785)	(3,791)	(3,843)	(3,974)	(4,105)	(4,215)	(4,343)	(4,471)	(4,600)
Total Expenses	(11,342)	(10,105)	(10,778)	(10,770)	(11,770)	(12,117)	(12,436)	(12,763)	(13,194)
Other income	460	587	491	1,063	500	515	530	545	561
Net Investment Income	172,891	170,994	122,888	65,854	105,799	83,090	85,637	89,468	93,821
Operating Result before tax	207,767	171,942	137,193	95,265	186,856	59,877	59,109	62,969	66,701
Tax Expense	(60,322)	(46,444)	(37,328)	(25,562)	(52,596)	(14,532)	(14,301)	(15,459)	(16,579)
Operating Result after Tax	147,445	125,498	99,865	69,703	134,260	45,345	44,808	47,510	50,122
Other Comprehensive Income	723	(315)	446	(1,151)	-	-	-	-	-
Total Operating Result	148,168	125,183	100,311	68,552	134,260	45,345	44,808	47,510	50,122
Financial Position									
Shareholders Funds	382,416	484,380	440,121	460,981	545,535	533,233	530,676	538,858	554,932
Gross Outstanding claims liability	901,916	952,683	976,499	1,005,466	969,049	1,018,697	1,069,995	1,121,084	1,173,141
Return on shareholders' funds	47.6%	28.9%	21.7%	15.2%	26.7%	8.4%	8.4%	8.9%	9.2%
Funding Ratio	128.8%	131.6%	125.5%	127.9%	135.7%	135.9%	135.9%	136.1%	136.3%

APPENDIX CI: SUMMARY OF INITIAL SUBMISSIONS

Submissions received in response to the MAIB's Preliminary Submission and Terms of Reference

Submission received from	Key Issues
Tasmanian Motorcycle Council	<ul style="list-style-type: none"> ▪ Acknowledges that motorcycling involves extra risks that are not experienced by other motors, however the submission also points to several benefits, including less impact on road infrastructure. ▪ Seeks consideration of the Learner Approved Motorcycle Scheme in changes to motorcycle class descriptions. ▪ Considers that Class 4 (medium motorcycles) should be amended from 125cc to 250cc, Class 20 (medium-large motorcycles) be amended to cover motorcycles between 250cc and 660cc, and Class 5 be amended to incorporate motorcycles over 660cc. ▪ Recommends that the relativity for Classes 4, 5 & 20 be set at 1.00. ▪ Recommends that, if Classes 4, 5 & 20 aren't set at 1.00, then they remain at the existing relativity of 1.51. ▪ Considers that MAIB should further encourage participation in road skills training course.
Uber	<ul style="list-style-type: none"> ▪ Recommends that ride-sourcing operators continue to be classified as Class 1 Motor Car and fully supports the recommendation of MAIB to not create a new vehicle class for ride-sourcing operators. ▪ Argues that existing evidence suggests that ride-sourcing operators have a comparable risk profile to private vehicles. ▪ Considers that the dominant intended application for ride-sourcing vehicles is still private, non-commercial use (mentions that half of Uber drivers in Australia drive less than ten hours per week). ▪ Argues that any reclassification of ride-sourcing operators should be based on actuarial data, not based on a broad legislative classification of a vehicle or other arbitrary criteria.
Tasmanian Taxi Council	<ul style="list-style-type: none"> ▪ Refers to the fact that ride-sourcing operators are considered to be Taxi services for GST purposes. ▪ Argues that MAIB's reasoning that retaining ride-sourcing operators in Class 1 helps a new industry provides an unfair advantage to new ride-sourcing operators compared to new taxi drivers.

APPENDIX C2: SUMMARY OF SUBMISSIONS TO DRAFT REPORT

Submissions received in response to the Regulator's Draft Report

Submission received from	Key Issues
Uber	<ul style="list-style-type: none"> ▪ Fully supports an initial premium relativity for ride-sharing vehicles of 1.00. ▪ Does not support the creation of a new premium class for ride-sharing vehicles, on the basis that it would add an unnecessary regulatory burden on vehicle owners. ▪ Suggests continuing to collect ride-sharing claims data until the next MAIB investigation (as four years of data would allow for accurate premium setting). ▪ States that maintaining current arrangements for the next four years would provide stability for current and potential drivers, and industry certainty as the outcomes of the current industry review will be known.
Tasmanian Taxi Council	<ul style="list-style-type: none"> ▪ Disputes some of the comparisons made by Uber, in its response to the MAIB's Preliminary Submission, between ride-sharing and taxi/hire car operations stating they are misrepresentations, in particular information that: <ul style="list-style-type: none"> ○ implies that taxi/hire car drivers and vehicles are below the Uber service/safety standard, and that drivers do not take financial responsibility for accidents when they are at fault; ○ exaggerates the hours taxi/hire cars are on the road in Tasmania; and ○ argues in support of special financial consideration for ride-sharing operators (over new taxi operators). ▪ Requests that rideshare operators are classified in an identified category by MAIB.
MAIB	<ul style="list-style-type: none"> ▪ Considers that should the recommendation to implement a separate class for ride-sourcing services be maintained, this will need to be carefully implemented to mitigate against the potential for drivers to inadvertently register in the wrong class (ie in Class 1) and therefore be at risk of not being covered under the MAIB's legislation.

APPENDIX D: COMPARATIVE PREMIUMS

As noted in Chapter 2, premium comparisons across Australian CTP schemes are difficult because of the differing nature of the schemes in each jurisdiction and because vehicle classifications differ from state to state. The following table compares the premiums for each MAIB vehicle class against the closest equivalent vehicle class in each state and territory, and should be used as a guide only. Note that in some jurisdictions there are no equivalents to certain MAIB vehicle classes.

The amount of duty applied to premiums also varies from jurisdiction to jurisdiction. All premiums below include ten per cent GST but exclude duty, except for New South Wales premiums which include levies and duty but not GST.

MAIB Premium Class	Description	TAS From 01/12/16	VIC ¹ From 01/07/16	SA ² From 01/07/16	NT From 01/07/16	WA From 01/07/16	ACT ³ From 01/02/17	QLD ⁴ at 10/04/17	NSW ⁵ at 10/04/17
		\$	\$	\$	\$	\$	\$	\$	\$
1	Motor Car	294.00	457.00	389.00	547.95	372.20	556.20	352.60	628.17
	Discount	235.00	228.50	329.00	547.95	372.20	556.20	352.60	628.17
				SA pensioners are exempt from paying stamp duty on their CTP insurance fees.					
2	Light Goods Vehicle	294.00	458.00	453.00	547.95	346.30	687.75	392.60	822.90
	Discount	235.00	229.00	393.00	547.95	346.30	687.75	392.60	822.90
				SA pensioners are exempt from paying stamp duty on their CTP insurance fees.					
3	Heavy Goods Vehicle	465.00	667.00	642.00	547.95	346.30	2474.50	1249.40	1482.48
4	Medium Motorcycle	445.00	303.00	163.00	312.40	250.00	119.88	127.60	270.11
								\$302.60 for motorcycles with a pillion or sidecar.	
5	Large Motorcycle	445.00	547.00	272.00	806.65	250.00	516.78	127.60	684.71
								\$302.60 for motorcycles with a pillion or sidecar.	
6	Taxi or Luxury Hire Car	1 001.00	2 317.00	4 345.00	1 539.85	1 384.45	7 945.33	4 799.40	7 462.66

MAIB Premium Class	Description	TAS From 01/12/16 \$	VIC ¹ From 01/07/16 \$	SA ² From 01/07/16 \$	NT From 01/07/16 \$	WA From 01/07/16 \$	ACT ³ From 01/02/17 \$	QLD ⁴ at 10/04/17 \$	NSW ⁵ at 10/04/17 \$
7	Large Public Passenger Vehicle	760.00	1512.00 Base rate for 9 seats or less; + \$38.00 per additional seat from 10 to 31; \$2317.00 thereafter.	1688.00	1539.85	1752.40	5008.93	827.40 Base rate for 8 seat vehicle; + \$75.33 per additional seat (average of premiums for QLD classes 10A, 10B and 11).	7801.87
8	Hire and Drive Vehicle	760.00	725.00	751.00	1 539.85	446.00	1 307.53	602.40	1 174.68
9	Caravan, Horse Float, Plant and Machinery (non-self-propelled)	39.00	N/A	0.00	N/A	12.65	N/A	N/A	N/A
10	Heavy Trailer	86.00	N/A	0.00	70.20	12.65	0.00	87.00	N/A
11	Mobile Crane	311.00	346.00	N/A	166.95	800.20	1 476.30	330.60	1570.43
12	Restricted Registration Vehicles, including Farm Motorcycles	41.00	76.00	39.00	73.60 Average of premiums for NT classes G(5), G(6) and G(7).	52.60	N/A	193.40	125.63
13	Plant and Machinery (self-propelled)	111.00	346.00	N/A	166.95	63.65	842.18	330.60	1312.88
14	Motor Trade Plate	311.00	300.00	389.00	547.95	90.05	193.03	352.60	188.45
15	Farm Tractor	111.00	76.00	39.00	123.60	63.65	842.48	85.60	125.63
16	Medium Public Passenger Vehicle	395.00	457.00 Base rate for 9 seats or less; \$647.00 thereafter; non-commercial use only.	1 001.00	547.95	1 752.40	721.25	827.40 Base rate for 8 seat vehicle; + \$75.33 per additional seat (average of premiums for QLD classes 10A, 10B and 11).	1 049.04
17	Small Motorcycle	147.00	76.00	98.00	111.95	52.60	119.88	127.60 \$302.60 for motorcycles with a pillion or sidecar.	94.23
18	Off-road and Recreational Vehicle	222.00	64.00	N/A	N/A	52.60	N/A	N/A	690.99

MAIB Premium Class	Description	TAS From 01/12/16	VIC ¹ From 01/07/16	SA ² From 01/07/16	NT From 01/07/16	WA From 01/07/16	ACT ³ From 01/02/17	QLD ⁴ at 10/04/17	NSW ⁵ at 10/04/17
		\$	\$	\$	\$	\$	\$	\$	\$
19	Short Term Unregistered Vehicle	29.00	N/A	36.00	33.40	N/A	N/A	60.90	N/A
20	Medium-Large Motorcycle	445.00	402.00	245.00	806.65	250.00	516.78	127.60 \$302.60 for motorcycles with a pillion or sidecar.	402.03
21	Vintage Motor Vehicle or Street Rod	29.00	45.00	48.00	50.05	52.60	58.43	72.40	N/A
22	Special Interest Vehicle	95.00	89.00	48.00	50.05	52.60	57.95	72.40	N/A

Source: CTP scheme websites.

Notes:

1. Victoria uses three risk zones for CTP premium pricing: High, Medium and Low. The Regulator has used the High Risk premiums for the purposes of this comparison.
2. South Australia uses two rating districts for CTP premium pricing. The Regulator has used the District 1 premiums for the purposes of this comparison. These premiums do not include the South Australian Lifetime Support Levy, which adds an average of \$102.54 to each premium.
3. These are the averages of the premiums offered in each class by the four CTP insurance providers operating in the Australian Capital Territory.
4. These are the averages of the premiums offered in each class by the four CTP insurance providers operating in Queensland.
5. New South Wales uses five rating districts for CTP premium pricing. The Regulator has used the Metropolitan District premiums for the purposes of this comparison. The Class 1 premium is the average of the premiums offered in this class by the six CTP insurance providers operating in New South Wales. All other premiums have been calculated based on the New South Wales Motor Accidents Authority Schedule of Premium Relativities, Effective 1 February 2016.

APPENDIX E: PREMIUM RELATIVITIES

The following relativities have been calculated on the basis of the premiums quoted in Appendix D. Any comments made in Appendix D also apply when considering these relativities.

No	Class	Premium Relativities Other States and Territories							
		TAS	VIC	SA	NT	WA	ACT	QLD	NSW
1	Motor Car	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
	Discount	0.80	0.50	0.85	1.00	1.00	1.00	1.00	1.00
2	Light Goods Vehicle	1.00	1.00	1.16	1.00	0.93	1.24	1.11	1.31
	Discount	0.80	0.50	1.01	1.00	0.93	1.24	1.11	1.31
3	Heavy Goods Vehicle	1.58	1.46	1.65	1.00	0.93	4.45	3.54	2.36 6.24 for vehicles weighing more than 16 tonnes.
4	Medium Motorcycle	1.51	0.66	0.42	0.57	0.67	0.22	0.36	0.43
5	Large Motorcycle	1.51	1.20	0.70	1.47	0.67	0.93	0.36	1.09 0.67 for very large m'cycles (>1 325 cc).
6	Taxi or Luxury Hire Car	3.40	5.07	11.17	2.81	3.72	14.29	13.61	11.88
7	Large Public Passenger Vehicle	2.59	3.31	4.34	2.81	4.71	9.01	2.35	12.42
8	Hire and Drive Vehicle	2.59	1.59	1.93	2.81	1.20	2.35	1.71	1.87
9	Caravan, Horse Float, Plant and Machinery (non-self-propelled)	0.13	N/A	0.00	N/A	0.03	N/A	N/A	N/A
10	Heavy Trailer	0.29	N/A	0.00	0.13	0.03	0.00	0.25	N/A
11	Mobile Crane	1.06	0.76	N/A	0.30	2.15	2.65	0.94	2.50
12	Restricted Registration Vehicles, including Farm Motorcycles	0.14	0.17	0.10	0.13	0.14	N/A	0.55	0.20
13	Plant and Machinery (self-propelled)	0.38	0.76	N/A	0.30	0.17	1.51	0.94	2.09
14	Motor Trade Plate	1.06	0.66	1.00	1.00	0.24	0.35	1.00	0.30
15	Farm Tractor	0.38	0.17	0.10	0.23	0.17	1.51	0.24	0.20

No	Class	Premium Relativities Other States and Territories							
		TAS	VIC	SA	NT	WA	ACT	QLD	NSW
16	Medium Public Passenger Vehicle	1.34	1.00	2.57	1.00	4.71	1.30	2.35	1.67
17	Small Motorcycle	0.50	0.17	0.25	0.20	0.14	0.22	0.36	0.15
18	Off-road and Recreational Vehicle	0.76	0.14	N/A	N/A	0.14	N/A	N/A	1.10
19	Short Term Unregistered Vehicle	0.10	N/A	0.09	0.06	N/A	N/A	0.17	N/A
20	Medium-Large Motorcycle	1.51	0.88	0.63	1.47	0.67	0.93	0.36	0.64
21	Vintage Motor Vehicle or Street Rod	0.10	0.10	0.12	0.09	0.14	0.11	0.21	N/A
22	Special Interest Vehicle	0.32	0.19	0.12	0.09	0.14	0.10	0.21	N/A

Note: New South Wales data is based on Metropolitan District premium relativities sourced from the New South Wales Motor Accidents Authority Schedule of Premium Relativities, Effective 1 February 2016.

APPENDIX F: VEHICLE CLASSIFICATIONS AND DESCRIPTION

Class	Vehicle	Description
1	Motor Car	A motor vehicle (including a campervan and a ride-sourcing vehicle) that – (a) is constructed principally for the carriage of persons; and (b) is not included in any other class.
2	Light Goods Vehicle	A motor vehicle that – (a) is constructed principally for the carriage of goods; and (b) has a gross vehicle mass not exceeding 4.5 tonnes.
3	Heavy Goods Vehicle	A motor vehicle (including a special-purpose vehicle) that – (a) is constructed principally for the carriage of goods; and (b) has a gross vehicle mass exceeding 4.5 tonnes.
4	Medium Motorcycle	A motorcycle that has an engine capacity exceeding 125cc but not exceeding 250cc.
5	Large Motorcycle	A motorcycle that has an engine capacity exceeding 700cc.
6	Taxi or Luxury Hire Car	(1) A taxi that is used to operate a taxi service under the <i>Taxi and Hire Vehicle Industries Act 2008</i> . (2) A luxury hire car that is used to operate a luxury hire car service under the <i>Taxi and Hire Vehicle Industries Act 2008</i> .
7	Large Public Passenger Vehicle	A public passenger vehicle that has 17 or more seats.
8	Hire and Drive Vehicle	A motor vehicle that is used to operate a hire and drive passenger service – (a) in this State only; or (b) in both this State and one or more of the following jurisdictions: (i) Australian Capital Territory; (ii) New South Wales; (iii) Northern Territory; (iv) Queensland; (v) South Australia; (vi) Victoria; (vii) Western Australia.

Class	Vehicle	Description
9	Caravan, Horse Float, Plant and Machinery (non-self-propelled)	A caravan, horse float or plant and machinery (other than a trailer) that – (a) has a mass exceeding half a tonne when not carrying a load; and (b) is designed to be drawn by a motor vehicle.
10	Heavy Trailer	A trailer that has an unladen mass exceeding half a tonne.
11	Mobile Crane	A mobile crane (other than a tow truck).
12	Restricted Registration Vehicles, including Farm Motorcycles	A vehicle (including a ride-on lawn mower capable of exceeding 10km/h) that – (a) is an off-road vehicle or restricted registration vehicle; and (b) is not included in class 15 or 18.
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, forklift truck, motor end loader, traxcavator, trench digger, bulldozer, earth-moving machine or any similar kind of vehicle not included in any other class.
14	Motor Trade Plate	A motor vehicle that is used under the authority of a trade plate issued under the <i>Vehicle and Traffic Act 1999</i> .
15	Farm Tractor	A tractor that – (a) is registered or unregistered; and (b) is used only for agricultural purposes.
16	Medium Public Passenger Vehicle	A public passenger vehicle (other than a taxi, ride-sourcing vehicle or luxury hire car) that has no more than 16 seats.
17	Small Motorcycle	A motorcycle that has an engine capacity not exceeding 125cc.
18	Off-road and Recreational Vehicle	A trail bike, mini-bike, 4-wheel recreational vehicle, dune buggy or any other off-road or recreational vehicle that – (a) is registered on conditions restricting its operation or use; or (b) is 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 that has an engine capacity exceeding 250cc but not exceeding 700cc.
21	Vintage Motor Vehicle or Street Rod	A vehicle that is registered as a vintage motor vehicle or street rod.
22	Special Interest Vehicle	A vehicle that is a special interest vehicle.

Source: *Economic Regulator (MAIB Premiums) Order 2013*, Schedule 1, as at 10 April 2017.

APPENDIX G: DISCOUNT ELIGIBILITY CRITERIA

The current *Economic Regulator (MAIB Premiums) Order 2013* specifies that a discount of 20 per cent of the maximum premium payable is available to:

- (a) an eligible asylum seeker; and
- (b) an eligible pensioner.

Note: The discount is in respect of one Class 1 or Class 2 motor vehicle.

'eligible asylum seeker' means a person who is –

- (a) the registered operator of a motor vehicle; and
- (b) one of the following persons:
 - (i) the holder of a Bridging (Class WE) (Subclass 050 or 051) visa issued under section 73 of the *Migration Act 1958* of the Commonwealth; or
 - (ii) a person who is subject to a residence determination that has been made under section 197AB of the *Migration Act 1958* of the Commonwealth;

'eligible pensioner' means a person who is –

- (a) the registered operator of a motor vehicle; and
- (b) one of the following persons:
 - (i) a pensioner;
 - (ii) a person who has a severe disability;
 - (iii) a parent or guardian of a person who has a severe disability and has not attained the age of 16 years.

'pensioner' means a person who is –

- (a) the holder of a current health care card issued in accordance with the *Social Security Act 1991* of the Commonwealth; or
- (b) 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
- (c) the holder of a current Gold Card or White Card issued in accordance with the *Veterans' Entitlements Act 1986* of the Commonwealth;