

Minister for Finance
Minister for Tourism
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Mr G Appleyard
Chairman
Office of the Tasmanian Economic Regulator
Level 5
111 Macquarie Street
HOBART TAS 7000

Dear Mr Appleyard

Requirement to investigate the pricing policies of the Motor Accidents Insurance Board

Pursuant to section 24 of the *Economic Regulator Act 2009*, I am writing to you to require the Office of the Tasmanian Economic Regulator to conduct an investigation into the pricing policies of the Motor Accidents Insurance Board. In accordance with section 24(8)(a) of the Act, I have obtained the agreement of the Minister administering the *Motor Accidents (Liabilities and Compensation) Act 1973* to the provision of this requirement.

The terms of reference for the investigation have been prepared in accordance with section 25 of the Act and are attached.

Pursuant to section 24(6)(c) of the Act, I also advise that there are no contracts or classes of contracts specifically listed which the Regulator should not investigate.

Yours sincerely



Scott Bacon MP
Minister for Finance

17 DEC 2012

Encl

ECONOMIC REGULATOR ACT 2009

2013 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 Office of 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 operation of the MAIB is to provide a compulsory no-fault third party motor accident compensation scheme in Tasmania. The principal objectives of the MAIB are to:

- be a successful business by operating in accordance with sound commercial practice and as efficiently as possible; and
- achieve a sustainable commercial rate of return in accordance with its corporate plan, having regard to the social and economic objectives of the State, as agreed in writing with the Portfolio Minister and the Treasurer.

In undertaking its core business, as required by MAIB's Ministerial Charter, the MAIB is required by the Portfolio Minister and the Treasurer to comply with the following strategic direction:

- ensure that an appropriate balance exists between premium income, the cost of claims and the Motor Accidents Insurance Board's prudential requirements so as to achieve a sustainable return;
- provide its services in a cost effective and efficient manner, while meeting the needs of its clients;
- ensure that its investment strategies maximise the probability of meeting its liabilities, particularly long tail liabilities;
- invest its funds in a manner that is consistent with the Motor Accidents Insurance Board's Investment Policy Statement;

- manage financial performance and business risk;
- be proactive in funding road safety programs with the objective of reducing serious casualty claims; and
- advance the rehabilitation process with the aim of achieving optimum outcomes for persons suffering injuries as a result of motor accidents.

The Pricing Policies and the Monopoly Service to be Investigated

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

The Date of Completion

The Regulator must provide a copy of the Final Report required under Section 35 of the Act in respect of the MAIB investigation by 31 July 2013. At an appropriate time during the investigation, the Regulator must make available a Draft Report.

Additional Matters to be Taken into Account

In addition to taking into account the matters referred to in section 31 of the Act, the Regulator must also take into account the following issues when conducting the MAIB pricing investigation:

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;
3. an appropriate mechanism to remove these cross-subsidies should this 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 impact of recent amendments to the following acts on vehicle classification:
 - a) *Passenger Transport Services Act 2011*;
 - b) *Taxi and Luxury Hire Car Industries Amendment Act 2011*; and
 - c) *Passenger Transport and Related Legislation (Consequential Amendments) Act 2011*;
9. the potential impact of the proposed National Injury Insurance Scheme on the MAIB;
10. the potential impact of the introduction of the National Heavy Vehicle Regulator; and
11. the correlation of MAIB classification of vehicles and the premium order to other areas managed by state regulation.

Requirement for the Regulator to Make Recommendations

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