The New South Wales Bar Association

CTP REFORMS – WILL PREMIUMS REALLY GO DOWN?

The claim that the proposed CTP changes will result in significant premium reductions is speculative, subject to a range of implementation risks and depends on actuarial analysis that has not been released. The most effective way to contain premiums and maintain decent protection for the injured is to retain, but streamline, the current CTP scheme.

Optimistic Assumptions

The Government is proposing radical reform to slash benefits to innocent accident victims and provide benefits to drivers who cause accidents. This is being done on the basis that it will help contain premiums.

On page 15 of the Issues Paper it is estimated that the Bill would reduce the average passenger vehicle premium by up to 15%.

The issues paper argues that various parts of the proposal will increase price competition within the NSW CTP market. This is highly optimistic at best. CTP is an unusual product from the point of view of the vendor (the CTP insurers). Individually none of them want to have the cheapest product, as the cheapest premium attracts young drivers in old cars who are the worst possible risk. Each CTP insurer would much prefer to insure middle aged and older drivers with comprehensive insurance for their expensive car. They do not want to be overexposed to insuring young drivers who have significantly higher accident rates. In a no fault scheme they won't want to be insuring motorcycles either, as single vehicle motor cycle accidents have an expensive claims profile.

Any pretense that any part of the proposed reform will put downward pressure on premiums ignores this simple market reality.

With motorcycles there is no suggestion there will be any cut in premium. The best the position paper can offer is the suggestion that the possible establishment of a special purpose premium model might reduce future price shocks.

The TAC model from Victoria on which this proposed scheme is based is government underwritten and $1 billion in deficit.

Absence of Information

Further, there is no guarantee that the savings will ever be delivered to motorists. The Government has so far refused to release actuarial costings for the proposed scheme that it holds from Ernst & Young. It has not produced the peer actuarial report which would have followed this primary costings report. It's unclear why the Government doesn't want to release actuarial analysis to support the claimed savings.

Nor have any of the CTP insurers confirmed that they can deliver a $75 reduction, or in fact any reduction in premium based on the proposal.

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The reality is that there will be 7000 new at fault drivers coming into the scheme. There will be significant additional administrative costs. Insurers will be demanding larger prudential margins as they don't know exactly how many claims there are going to be or the payouts that will need to be made.

On the other hand, there is extensive claims experience with the current scheme. It is stable and predictable.

Without access to the costings for the proposals, there can be no confidence in the Government's claimed savings. The very real possibility is that there will be no savings at all.

Innocent Motor Accident Victims Lose Out

A 15% cut (if it ever eventuates) is a $75 pa or $1.50 per week saving to motorists. In exchange for this $1.50 per week saving, 90% of innocent accident victims lose:

- Any entitlement to treatment expenses beyond five years;
- Any entitlement to lost wages past five years;
- Any entitlement to recover lost superannuation benefits;
- 20% of their wage loss inside the five year economic loss window;
- Any right to legal representation to help fight the claim against an insurance company.

These rights are worth a good deal more than $1.50 per week if you have an accident.

Income Protection

Anyone who can't afford to drop 20% of their income <u>or</u> who earns more than $100,000 per annum will require income protection insurance. This will cost far more than $1.50 per week. Many people have benign medical conditions (such as diabetes) or complex family medical histories that make it impossible to obtain income protection.
Under no circumstances should this Bill be even considered until the actuarial costings are released and the CTP insurers commit to the $75 deduction that is speculatively promised.

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