3 June 2021

MAIC CTP Premiums Team
Insurance Commission
Queensland Treasury
Level 26, 1 William St
Brisbane

Email: premiums@maic.qld.au

To: MAIC CTP Premiums Team

Factors and trends influencing the cost of insurance under the statutory insurance scheme

1. Introduction

1.1 The MTA Queensland responds to your invitation to make a submission in respect of the Review of the Limits to Apply to Compulsory Third Party (CTP) insurance and the dynamics of factors that should be considered in making determinations relevant to the Commission's setting of insurance premium floors and ceilings across the 24 classes of vehicles comprising Queensland's motor vehicle fleet.

2. Overview

2.1 Motor vehicle owners (fleet and private) have benefited from the ongoing prudent management of the CTP scheme by the Motor Accident Insurance Commission (MAIC) particularly in the past year as the nation endured and recovered, partially, from the COVID-19 pandemic. The premium for the Class 1 vehicles has been kept stable at $351.60 (Quarterly CTP Insights: Jan-Mar 2021) from the onset of COVID-19 pandemic and into the recovery phase.

2.2 The MAIC's 2019-2020 Annual Report states: 'Queenslanders continue to benefit from what is still arguably the best CTP insurance scheme in Australia' which may be demonstrated by its affordability at 21.8 per cent of Average Weekly Earnings ($1,615.40). The affordability level compares the Class 1 premium to the Queensland full-time adult persons ordinary time weekly earnings.

2.3 The 2019-20 Motor Accident Insurance Commission (MAIC) Annual Report outlined the cost structure of the levies and fees applying to the CTP insurance from 1 July 2020:

- Statutory insurance scheme levy from 1 July 2020 will remain unchanged at $1.50.
- Nominal defendant levy from 1 July 2020 was reduced 50 cents from $8.50 to $8.00 for a Class 1 vehicle.
- Hospital and emergency services levy from 1 July 2020, was reduced from $18.30 for a Class 1 vehicle to $18.15 for Class 1 vehicles. The levy amount calculated varies by vehicle class.
- National Injury Insurance Scheme Queensland levy (NIISQ) varies by vehicle class. The NIISQ levy was $90.50 for a Class 1 vehicle in 2019 -20 and is the current levy.

Motor Trades Association Queensland
Address Freeway Office Park, Building 8, 2728 Logan Road, Eight Mile Plains Qld 4113 [Postal PO Box 4530, Eight Mile Plains Qld 4113]
Telephone +61 7 3237 8777 | **Toll Free** 1800 177 951 | **Email** info@mtaq.com.au | **Website** www.mtaq.com.au

- Administration fee from 1 July 2020, increased by five cents to $8.45 per policy (The administration fee for the Department of Transport and Main Roads for delivering administrative support for the CTP insurance scheme).

2.4 The total outlays for CTP levies and fees payable by a vehicle owner (excluding the NIIS levy) is $36.10. The insurer's premium from 1 July 2020 has been $225.00 (insurers premium $186.94; insurer expenses and profit $38.06; stamp duty (insurer's premium 0.10c.) In all the current cost of CTP insurance from 1 July 2020 is $351.60 (GST inclusive $20.44).

2.5 The Queensland Government's 2021-2022 State Budget (to be delivered on 15 June 2021), as a general practice, includes an increase above inflation for registration renewals and for new vehicles. (The registration renewal comprises; registration fee $334.50; and traffic improvement fee $58.35. A surcharge applies for a shorter registration term payable to cover extra processing costs for renewals less than 12 months - $8.80).

2.6 The anticipated increase in registration renewals will impact the overall quantum (renewals plus CTP) paid by vehicle owners. The Association's preference, whilst recognising the MAIC's statutory obligations under the *Motor Accident Insurance Act 1994*, is for the MAIC to maintain the current premium, levies and fees for a Class 1 vehicles stable at $351.60 for this assessment period.

3. Factors and Trends

3.1 Recent economic data indicates the Australian economy, post pandemic, 'is now transitioning strongly from recovery to expansion supported by still high levels of monetary stimulus.' The Association submits the following viewpoints for consideration:

Economic Recovery

3.1.1 The Reserve Bank of Australia's (RBA) minutes of the Monetary Policy Meeting (1 June 2021) referring to the domestic economic stated:

'The economic recovery in Australia is stronger than earlier expected and is forecast to continue. The Bank's central scenario is for GDP to grow by 4¾ per cent over this year and 3½ per cent over 2022. This outlook is supported by fiscal measures and very accommodative financial conditions. An important ongoing source of uncertainty is the possibility of significant outbreaks of the virus, although this should diminish as more of the population is vaccinated.

Progress in reducing unemployment has been faster than expected, with the unemployment rate declining to 5.5 per cent in April. Job vacancies are at a high level and a further decline in the unemployment rate to around 5 per cent is expected by the end of this year. There are reports of labour shortages in some parts of the economy.

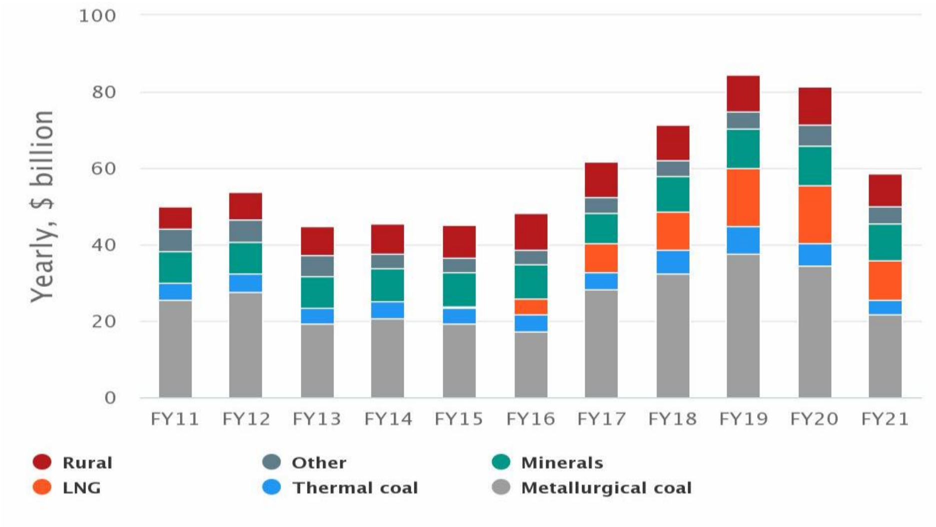
Despite the strong recovery in the economy and jobs, inflation and wage pressures are subdued. … Housing markets have strengthened further, with prices rising in all major markets.'

3.1.2 The RBA's minutes state the 'highly supportive monetary conditions to support a return to full employment' would be maintained, and the cash rate would not be increased 'until actual inflation is sustainably with the 2 to 3 per cent target range.' For this to ensue, the labour market would need to be sufficient to generate wage growth, substantially higher than at present. 'This is unlikely to be until 2024 at the earliest.'

3.1.3 The Australian Bureau of Statistics (ABS) Balance of Payment data - March quarter (1 June 2021) reveals the economy was lifting above pre-pandemic levels driven by exceptionally high iron ore exports and retailers restocking inventories in response to strong consumer demand. Australia's current account surplus reached a record high of $18.3 billion in the March quarter and retailers' inventories picked up by 6.6 per cent in March, following a steady decline in stock-on-hand throughout 2020 as Australians sourced products such as office furniture, homewares and appliances due to the shift to working from home.

Queensland economy

3.1.4 The outlook for Queensland, whilst experiencing the upbeat forecast for the Australia's economy, is mixed. The minerals and energy sector, the major contributor to the economy with $38 billion in direct spending (2019 -2020) and substantial input into the State Budget, has experienced a downturn in prices and problematic trade issues. The 2020-2021 State Budget estimated royalties (coal, petroleum, liquified natural gas, precious metals and other royalties) to be $2,255 million, a substantial decline of almost 50 percent from the previous year when it was $4,532 million.



3.1.5 The tourism and the hospitality sectors are underperforming due to the ongoing COVID-19 restrictions. Interstate, local and domestic travel, although strong has not compensated for the loss of the international tourist market. Agriculture is trending upwards in terms of production but some 65% of the State continues to be drought declared, some areas stretching back to 2013. The outlook for the winter crops is 'hopeful to upbeat' but similar to other sectors the lack of human capital is a limiting factor. Business investment has been positive and new capital expenditure such as spending on buildings and structures and outlays on equipment, plant and machinery has been above the average. Residential building industry is booming.

3.1.6 Limiting business and industry productivity and economic performance is access to a skilled workforce to meet output and consumer demand. The State's leading newspaper cited the need for 4,400 mechanics to service the automotive value chain as an example of the skills and labour force shortage.

3.1.7 Since the pandemic first impacted in March 2020, employment has experienced steady growth. Queensland has seen the largest growth in jobs in Australia, with a 2.1% increase, or an additional 54,900 jobs. The cessation of the Federal Government's JobKeeper dented the State's job growth. The April Australian Bureau of Statistic's data reveals Queensland recorded the loss of 7,400 jobs, and an unemployment rate of 6.1 per cent – the second highest of the states and territories and above the national rate of 5.5 per cent.

3.1.8 Work from home has shifted consumer spending to local and suburban retail centres at the expense of inner-city businesses particularly small businesses reliant on foot traffic.

Automotive economy

3.1.9 During the pandemic, automotive was deemed an essential industry and able to trade. Most members did so in a COVID-19 safe way curtailing operations and with a smaller workforce – some on JobKeeper. Overall, the motor trades and vehicle retailers have recovered, each recording favourable trading conditions and report a positive outlook. A limiting factor is the demand for skills. The economic recovery for the automotive industry is generally trending upward however, there are considerable cost pressures including supply constraints and delays ,increased freight costs and delayed production of saleable products, which impacts actual realised income. There has also been increased operational costs to some business including compliance and general insurance. An exception to the economic trend has been the rental vehicle industry that are reliant on tourism - any increase in CTP presents a direct increased cost pressure on their business operating costs across the fleet.

4 Conclusion

4.1 The MAIC's assessment coincides with the delivery of the State Budget on 15 June which will provide the projections of the government's expenditure and services to be delivered for 2021-2022; and at a time when the economic outlook for the State is mixed. The Queensland economy is still recovering from the pandemic's restrictions; headwinds prevail for the mining and energy sector; business and industry productivity is impacted by the shortage of skills; and work from home has shifted consumer spending away for inner city to local and suburban centres impacting many small businesses.

4.2 The expectation is that the Queensland Budget 2021-2022 will continue the Palaszczuk Government's Economic Recovery Plan to support ongoing recovery, growth and development but will include some revenue raising measures such as the increase in motor vehicle registration (new and renewal).

4.3 We encourage the MAIC to consider the mixed outlook for the Queensland economy and the 'probable' revenue raising measures in the 2021-2022 State Budget and maintain the current premium stable at $351.60 for this assessment period.

5. The MTA Queensland background

5.1 The MTA Queensland is the peak organisation in the State representing the specific interests of businesses in the retail, repair and service sector of Queensland's automotive industry located in the State.

5.2 There are some 15,500 automotive value chain businesses employing approximately 88,500 persons generating in excess of $20 billion annually. It is an industrial association of employers incorporated pursuant to the *Fair Work Act* 2009. The Association represents and promotes issues of relevance to the automotive industries to all levels of Government and within Queensland's economic structure.

5.3 Australia's first automotive hub, the MTA*I*Q, has been established in specifically designated accommodation at the corporate office. The hub is an eco-system that supports innovation for the automotive industry.

5.4 The Association is the leading automotive training provider in Queensland offering nationally recognised training, covering technical, retail and the aftermarket phases of the motor trades industry through the MTA Institute - a registered training organisation. It is the largest automotive apprentice trainer in Queensland employing trainers geographically dispersed from Cairns to the Gold Coast and Toowoomba and Emerald. The MTA Institute last financial year provided accredited courses to in excess of 2,000 apprentices and trainees.

Thank you for your consideration.

Yours sincerely,

Rod Camm
Group Chief Executive Officer