

21 September 2018

The Hon Natalie Ward MLC
Chair
Standing Committee on Law and Justice
Parliament House
Macquarie Street
SYDNEY NSW 2000
By email: law@parliament.nsw.gov.au

Dear Ms Ward,

Answers to questions on notice – 2018 Review of the NSW CTP Insurance Scheme

Following Suncorp's appearance at the Law & Justice hearing on 23 August 2018, we undertook to provide answers to questions on notice.

Questions on Notice:

- a) *Insurers' behaviour has changed in the no-fault scheme so that instead of contesting fault, insurers are contesting medical causation. The claim was that it was a noticeable trend and change. What is your response to that assertion?* (Mr David Shoebridge)
- b) *How many staff does Suncorp have to deal with SIRA?* (The Hon Daniel Mookhey)
- c) *[Can you] give us some indication of what the cost of that might be incurred by Suncorp to deal with [the Risk Equalisation Mechanism]?* (Mr David Shoebridge)
- d) *[Can you] give us some indication of what the cost of that might be incurred by Suncorp to deal with [the Profit Normalisation]?* (The Hon Daniel Mookhey)

Answers

- a) Suncorp has not, as alleged, changed behaviour with regards to contesting medical causation under the new *Motor Accident Insurance Act (MAIA)* scheme. Establishing medical causation is a feature of both at-fault and no-fault schemes. There has been no change in how claims are managed by Suncorp with regard to medical causation under the MAIA scheme. The implication that Suncorp has increased our propensity to contest medical causation as a response to not contesting fault is false.
- b) Suncorp has three groups that communicate directly or indirectly with SIRA: NSW CTP managers, regulatory compliance staff and front-line claims staff. Suncorp's Executive Manager of NSW CTP Portfolio and Executive Manager of NSW CTP Claims have communication with SIRA as a core component of their roles. This includes participating on committees and working groups, ad hoc queries, regulatory audits and reviews where SIRA also requires access to frontline staff.

Suncorp has 11 members in its insurance regulatory compliance area, and estimates that 25-30 per cent of their time is dedicated to managing SIRA reporting. The burden of addressing reporting exceptions (errors) within the designated timeframes falls largely upon claims management staff, who are required to obtain the relevant information.

The tight timeframes that the claims management staff have to correct data exceptions has disrupted their ability to manage claims in an optimal manner. Currently Suncorp has approximately 31 employees supporting MAIA claims (either directly managing claims or supporting the claims advisors in an advisory capacity), and this number is steadily increasing. These employees have their workflow adversely impacted by the requirement to address reporting exceptions within the designated timeframes.

Suncorp acknowledges that, subsequent to our earlier submission to the NSW Law & Justice Committee, SIRA have significantly changed the rules regarding reporting exceptions, making it less onerous upon insurers.

- c) The design of the Risk Equalisation Mechanism (REM) has generated significant implementation and maintenance costs for Suncorp. REM implementation was part of an approximately \$17 million project to implement the new CTP scheme. Ongoing costs of the REM are borne by Suncorp actuarial, underwriting and portfolio management functions. In addition, Suncorp engages external actuarial consultants to support our management processes.

The REM currently has 144 'buckets' for Class 1 (passenger) vehicles, in addition to the buckets for other vehicle classes. The buckets have been developed purely on the basis of assumptions as there is no experience under the new scheme. Each bucket requires ongoing analysis and monitoring by Suncorp actuarial, underwriting and portfolio staff, making pricing determinations more complex and time consuming. A number of assumptions are required for these calculation, which inevitably lead to results deviating from estimates (as evidenced by the current industry-wide REM deficit), requiring subsequent adjustment. A greater number of buckets multiplies the work load for insurers, SIRA and SIRA's external actuarial consultants.

The unnecessarily complexity of the REM, introduced from the scheme's inception, and the ongoing costs of maintenance are duplicated across all insurers. This is in addition to the significant administration costs of the REM which is borne by SIRA.

- d) As the Profit Normalisation mechanism has not yet been activated, calculating the anticipated cost to Suncorp of engaging with the mechanism would be speculative. The draft guidelines indicate that the mechanism is complex and the requirements for insurers to apply for *Innovation Support* are extremely onerous and appear to stifle – rather than support – innovation and competition. Suncorp recommends that the guidelines have a focus on positive customer outcomes rather than process.

Suncorp believes there is an opportunity for the Profit Normalisation mechanism to be simplified and its operation to be clarified. The complexity and uncertainty of the mechanism creates unnecessary scheme costs, which are ultimately borne by NSW motorists.

Suncorp continues to engage with SIRA to establish greater clarity with regards to how precisely the mechanism will operate.

Supplementary Submission

Insurer behaviour is not aggressive or adversarial

Suncorp rejects the assertions made by lawyers' groups in their evidence to the Committee that insurer behaviour is 'aggressive and adversarial' under the new *MAIA* scheme. The *MAIA* scheme was adopted from 1 December 2017 and has reduced the adversarial nature of CTP claims through the introduction of defined benefits and encouraging direct contact between insurers and injured people. Defined benefits have reduced premium costs, and focused claims teams on achieving the best outcomes for injured people. Since the *MAIA* scheme's introduction, the culture of our claims area has shifted in recognition of the greater focus on rehabilitation and recovery outcomes, rather than financial compensation.

The non-adversarial dynamic of the scheme will be impacted once injured claimants become eligible to for damages under common law after 20 months. *MAIA* scheme estimates predict that 72 per cent of claims costs will continue to be distributed through an adversarial common law process, which have the potential to impact claims operational culture moving forward. We encourage the Committee to recognise that a greater degree of no-fault statutory benefits would enhance the non-adversarial culture within NSW CTP claims management (whilst also providing downward pressure on premiums). Similarly, adopting a 'first-party' scheme, where insurers are responsible for managing the claims of all people injured in their insured vehicle (typically the policy holder and their family), would also improve customer experience.

Public communication of the new MAIA scheme is required

Suncorp believes there is an opportunity for a public awareness campaign about the benefits of the NSW CTP scheme reform. The wider public knowledge of the expansion in no-fault cover would be particularly relevant in remote and regional parts of NSW where motorists are more likely to have high-speed single-vehicle accidents (due to factors such as road conditions, fatigue and wildlife). This could increase the number of injured people who utilise the reformed scheme for its intended purpose.

Suncorp is taking proactive steps to communicate features of the new scheme to customers from non-English speaking backgrounds, who traditionally have high levels of legal representation due to language barriers. We have also reviewed our claims processes to improve how we supported injured people with no or limited proficiency in English.

I thank the Committee for their interest in Suncorp's perspective on the New South Wales CTP scheme.

Should you wish to discuss any of the points raised in this supplementary submission, please contact Brendan Bolton, Senior Advisor, Government, Industry and Public Policy on 0438 744 543 or brendan.bolton@suncorp.com.au.

Yours faithfully,



Chris McHugh
Executive General Manager
Personal Injury Portfolio and Products