

# POSITION PAPER

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**Topic:** CTP Insurance Discussion Paper Response

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## INTRODUCTION

The NSW Hire Car Association welcomes the opportunity to be involved in the discussion surrounding CTP Insurance.

We understand the State Insurance Regulatory Authority is undertaking this review in response to reforms in the point-to-point transport industry and look forward to participating in the dialog through this feedback to the discussion paper and attendance at the upcoming discussion forum on 26<sup>th</sup> April 2016.

As an overview the position of the NSW HCA is founded on the following views:

1. The ability to customise insurance premiums based on individual risk factors could be generally beneficial to all operators across all services (taxis, hire cars, ride sharing) given the right regulation framework.
2. Cross subsidisation across risk profiles is not appropriate as it would
  - a. unnecessarily increase premiums for operators with low risk profiles
  - b. encourage high risk behaviours
3. It is imperative that ride share operators be required by law to disclose their activities. We understand the challenge posed to government in this regard. But this challenge should not influence ruling out options which are viable for the general point-to-point industry.

Outlined below is our position on each of the 6 options outlined in the discussion paper.

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## OPTION 1

<p><b>OPTION DETAILS</b></p>	<p><b>CREATE A NEW RIDE SHARE VEHICLE CLASS</b></p> <p>Identification: Ride share vehicles require identification (mechanism TBD)</p> <p>Classification: Separate ride share classification created.</p> <p>Premiums: Ride share premiums initially similar to Hire Car premiums. Over time relativity would be adjusted to reflect true risk profile.</p> <p>Taxis and hire cars continue to pay premiums appropriate to their know risk profiles.</p>
<p><b>BENEFITS SUMMARY</b></p>	<p>Over time ride share vehicles pay premiums more reflective of their actual risk profile and cross subsidisation by private vehicles would be removed.</p> <p>This would place each point to point class as a whole on a level playing field.</p>
<p><b>CHALLENGES SUMMARY</b></p>	<ol style="list-style-type: none"> <li>1. Compliance and enforcement of ride share vehicles declaring their status to RMS at point of registration.</li> <li>2. Defining how much it is used for business vs private use (even once vehicle is identified). This would potentially disadvantage low use vehicles who would end up subsidising those who use primarily their vehicles primarily for business and therefore are higher risk and contributing to the higher risk profile of the overall group and therefore higher premiums.</li> <li>3. This would disadvantage low risk taxi drivers who are bundled into the general taxi pool but have a risk profile more similar to low risk hire car or ride share operators.</li> </ol>
<p><b>NSW HCA POSITION</b></p>	<p>NSW HCA supports Option 1. The creation of a new classification would allow the new ride share operators to establish their own risk profile and pay premiums accordingly and collectively subsidise this new classification.</p> <p>The NSW HCA disagrees with challenge number 2. Even within the hire car industry there are drivers and vehicles with a much lower risk profile than others. For example some hire car vehicles are leased out and operated by drivers who do not own the vehicle and who often shift-share with other drivers so the car is in operation for a large part of each 24 hour cycle. Other Hire Cars are operated by a single driver who drives much less hours and much more responsibly. REGARDLESS of these differences hire car operators have paid premiums appropriate to the risk profile of our classification (Class 8) and collectively subsidised CTP insurance for Class 8 vehicles. The same principle should apply for ride-share operators.</p>

	<p>The NSW HCA also disagrees to challenge number 3 regarding the disadvantage to taxi drivers. Regardless of individual risk profiles of taxi drivers the data presented in the CTP Discussion Paper conclusively demonstrates that taxi classification (Class 7) as a whole has a much higher risk profile and it is right that this pool should collectively subsidise the increased risk of operating a taxi.</p> <p>The NSW HCA recognises that should more granular data be available which determines times- of-day/circumstances where the risk is higher, then this would present a more valid basis to this perceived challenge.</p>
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## OPTION 2

<p><b>OPTION DETAILS</b></p>	<p><b>CREATE NEW POINT-TO-POINT VEHICLE CLASS</b></p> <p>Creation of a single point-to-point vehicle class which includes taxis, hire cars, and ride share vehicles.</p> <p>Premium setting would be partially deregulated. A premium relativity would be determined for the class as a whole and a wide range of discounts or bonus schemes would apply to premiums based on actual claims, experience data or mandatory risk factors.</p> <p>Ride Share vehicles would need to be identified (mechanism TBD).</p>
<p><b>BENEFITS SUMMARY</b></p>	<p>New level playing field.</p> <p>Pooling vehicles creates ability to calculate premiums more appropriately at an individual level.</p> <p>Use of technology such as telematics* and dash cams to track how vehicles are being used.</p> <p>Take into account accident and infringement history of individual vehicles.</p>
<p><b>CHALLENGES SUMMARY</b></p>	<p>Better risk vehicles subsidising high risk vehicles.</p> <p>Identification of ride share vehicles, with some discouraged from disclosing, and 2-3 years to set appropriate premium levels for ride share vehicles - during which time the whole pool would be subsidising that risk.</p> <p>Risk avoidance by insurance providers where they actively avoid offering premiums for high risk categories. This would require a risk equalisation mechanism across all insurers.</p>
<p><b>NSW HCA POSITION</b></p>	<p>The NSW HCA could potentially support this option under the following conditions:</p> <ul style="list-style-type: none"> <li>- clear identification of ride share vehicles</li> <li>- risk profiling of ride share vehicles commensurate with the anticipated activity of this group and supplemented with more comprehensive data over time</li> <li>- True customisation of premiums at an individual level which would allow vehicles to be assessed at their own individual risk level</li> <li>- natural progression towards similar risk profiles subsidising that risk group and this not leading to an increase in insurance premiums for historically low risk groups such as HC operators.</li> <li>- careful consideration of the requirement for telematics* as this may be redundant for some operators for booked services.</li> </ul>

## OPTION 3

<p><b>OPTION DETAILS</b></p>	<p><b>DEREGULATION OF PREMIUMS TO ALLOW RISK TAKING</b></p> <p>Point-to-point operators required to get Green slip but can do it from any provider at any cost.</p> <p>SIRA may still be required to provide some level of consumer protection to avoid price gouging.</p>
<p><b>BENEFITS SUMMARY</b></p>	<p>Consumer choice when shopping around for best premium and pay individual risk appropriate premiums.</p> <p>Insurance providers have more flexibility in providing customised insurance premiums, based on use of telematics.</p>
<p><b>CHALLENGES SUMMARY</b></p>	<p>Insurers may charge excessive premiums.</p> <p>Poor risk vehicles may have significantly higher premiums which will inhibit ability to compete.</p> <p>Operators may avoid high risk times and this would be detrimental to passenger outcomes.</p>
<p><b>NSW HCA POSITION</b></p>	<p>The NSW HCA does not support this option. It provides the potential for a number of issues and complications especially in relation to excessive premiums.</p> <p>The NSW HCA particularly disagrees with challenges laid out in point 2 and 3 as follows:</p> <ul style="list-style-type: none"> <li>• Poor risk vehicles SHOULD pay a higher premium as they would adversely impact the pool in general. This would definitely 'encourage adoption of better practices and the exit of higher risk practices' which is a desirable outcome for the point-to-point industry.</li> <li>• Operators who operate at high risk times (namely Friday and Saturday night and early morning hours between 1am and 5am) generally surcharge for this service which would cover higher premiums applied for these higher risk practices.</li> </ul>

## OPTION 4

<p><b>OPTION DETAILS</b></p>	<p>RATE ALL POINT TO POINT VEHICLES AS CLASS 1 VEHICLES</p> <p>All vehicles in NSW would be included in Class 1 passenger vehicles.</p>
<p><b>BENEFITS SUMMARY</b></p>	<p>Point-to-point vehicles would have a level playing field in relation to CTP insurance premium prices contributing to the sustainability of the taxi industry and lower fares for consumers.</p> <p>There would be no need to establish identification for ride share vehicles.</p>
<p><b>CHALLENGES SUMMARY</b></p>	<p>Significant increase in cross subsidisation of high risk vehicles such as taxis which would drive prices up for all vehicles.</p> <p>Reduced incentive for adoption of better practices which reduce risk profile.</p> <p>Reduce incentive for insurers to provide premiums for high risk vehicles.</p>
<p><b>NSW HCA POSITION</b></p>	<p>The NSW HCA does not support this option as it does not appear feasible or sustainable.</p> <p>Regarding benefits, we disagree that this would create a level playing field as this option would hugely and unnecessarily burden low risk operators - especially current Class 1 passenger vehicles.</p> <p>The NSW HCA also does not believe the reduced cost to taxi CTP premiums would automatically translate into reduced fares.</p> <p>Regarding the challenges we believe they are all valid and should be prohibitive to the adoption of this option.</p>

## OPTION 5

<p><b>OPTION DETAILS</b></p>	<p><b>RISK POOL (INSURANCE LEVY ON FARES)</b></p> <p>Taxi networks and ride-share operators collect a levy on every fare "in high risk times/areas" to fund additional insurance cost for the insurers.</p> <p>This would mean low point of sale insurance premiums and customers paying for increased insurance costs "ideally linked to risk".</p> <p>The NSW Government is proposing an industry adjustment levy and the risk pool levy could be added to that.</p>
<p><b>BENEFITS SUMMARY</b></p>	<p>User pays and related to vehicle usage - providing neither advantage nor disadvantage to the vehicle owner.</p> <p>More level playing field for premiums across all point-to-point operators and ensure taxis are sustainable.</p>
<p><b>CHALLENGES SUMMARY</b></p>	<p>Administrative and legal complexities in collecting and administering the risk pool.</p> <p>Less effective underwriting for insurers.</p> <p>Passenger disadvantage with price increases.</p> <p>Less operator incentive for safe behaviours and practices.</p> <p>More complex claims processes.</p>
<p><b>NSW HCA POSITION</b></p>	<p>The NSW HCA does not support this option as it will undoubtedly be hugely complex to collect and administer revenue.</p> <p>The NSW HCA does not understand how sustainability of the taxi industry is presented as a general benefit. The taxi industry must be accountable for their clearly documented high risk profile which is the primary reason for the high CTP premiums they have traditionally paid. The data presented in this discussion paper supports this view.</p> <p>As previously stated, should more granular data be available which correctly identifies specific taxi practices as higher risk we understand how this would subsequently enable insurers to more accurately profile the risk of various taxi operators.</p> <p>Overall, the NSW HCA supports the challenges outlined in relation to this option and believes they are accurate and should not be underestimated.</p>

## OPTION 6

<p><b>OPTION DETAILS</b></p>	<p>RETAIN CURRENT VEHICLE CLASS ARRANGEMENTS BUT FREE UP RISK FACTORS</p> <p>Taxis and hire cars retain their own class and ride-share vehicles would remain in Class 1 passenger vehicle classification.</p> <p>Insurers would be given greater freedom to set prices within each class.</p> <p>Ride share operators need to declare usage to the insurer.</p>
<p><b>BENEFITS SUMMARY</b></p>	<p>Quick implementation with limited system changes.</p>
<p><b>CHALLENGES SUMMARY</b></p>	<p>Class 1 insurance more complicated as insurers would be free to risk rate each ride share operator. This could lead to substantially increased prices for some operators.</p> <p>Discourage ride-share operators from accurately disclosing usage.</p> <p>Price for some high risk taxis and hire cars will increase.</p>
<p><b>NSW HCA POSITION</b></p>	<p>The NSW HCA does not support this Option. It is imperative for public safety and duty of care that any operator using a vehicle for the transport of public passengers accurately disclose this usage and acquire appropriate CTP insurance.</p> <p>Currently taxis and hire cars are appropriately covered for their relative risk profiles and therefore the same principles should apply to ride-share operators under their own classification.</p>

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