



Monday, 5 March 2018

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

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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 to your Review of the Limits to Apply to Compulsory Third Party (CTP) on factors influencing premium components and to comment on trends and impacts relevant to the Commission's determination of premium floors and ceilings across the 24 Class of Vehicles ranging from cars and station wagons through to trailers.

1.2 The comments contained in this submission are confined to the views and issues from the perspective of the MTA Queensland.

1.3 It is the MTA Queensland's view, after taking into consideration a range of economic indicators, survey data and anecdotal information from the membership, that the range of premiums should remain steady for the assessment period without adding further to household budget costs as the economy transits to a stable sustainable growth to average about 3 per cent over the next couple of years.

2. The Submission

2.1 The MTA Queensland is cognisant that the MAIC has a statutory duty under the terms of the *Motor Accident Insurance Act 1994* Section 13A (5) to "obtain an actuarial review of current trends that could affect the financial soundness of the scheme".

2.2 Maintaining prudential standards must be and should be the priority of MAIC, but as Section 3 (b) of the Act indicates it is appropriate for MAIC in making its determination of premium floors and ceilings utilise judgment that takes into consideration "affordability of CTP insurance and to keep the costs CTP insurance at a level the average motorist can afford."

2.3 As indicated in previous submissions, affordability must be considered in the context of "cost of living" which currently is a predominant concern for Queensland households. We submit, that in the decision-making process, the MAIC take into consideration such matters as:

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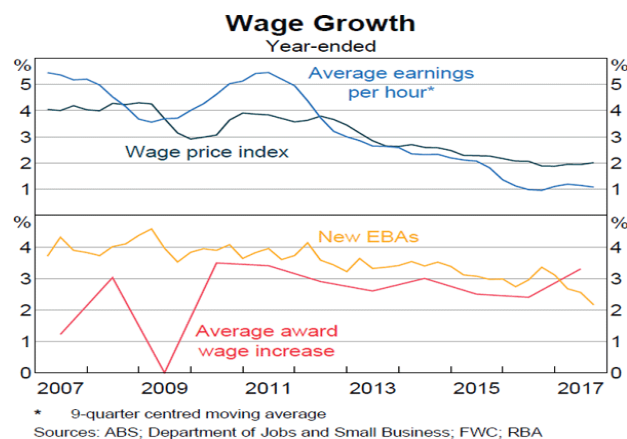
(a) Economic growth

Queensland Treasury in its Mid-Year Fiscal and Economic Review assessed that the State's economic growth for 2017 -2018 will be 2.75 per cent and in 2018-19 rise to 3 per cent. This suggests that growth will be steady but not exceptional. The Reserve Bank of Australia (RBA) whilst a little more up-beat, forecast the Gross Domestic Product to be in the steady zone at a little above 3 per cent over both 2018 and 2019.

(b) Wage growth

RBA research indicates that nationally, wage growth has declined to the slowest pace since at least the late 1990s and to a level that has kept pace with inflation between 2–3 per cent. Wage growth is essential to encourage household spending and underpin economic growth.

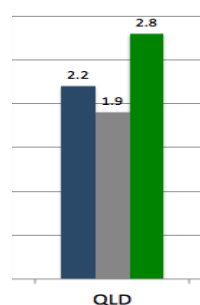
The RBA in its February 2018 monetary policy statement showed that nationally, wage growth is subdued and has been trending downwards since 2011:



The most recent data from the Australian Bureau of Statistics (ABS) (Wage Price Index December 2017), released 21 February 2018 confirms wages growth remains at the lower end of the scale. The wage price index in Queensland (total hourly rates of pay excluding bonuses) over the past twelve months increased by 2.2 per cent, whilst a little better than the national average of 2.1 per cent, it contrasts unfavorably with the state's average growth 3.3 per cent over the past 12 years.

ABS Wage Price Index – Yearly Change (December qtr 2017)

Blue- All Sectors Grey – Private Sector Green – Public Sector



(Graph Qld Economic Advisory Services)

In considering Queensland's wage growth, the increase primarily is due to public sector wages growth which increased by 2.8 per cent compared to the private sector's growth of 1.9 per cent where there is the majority of employees.

In terms of the private sector, the expectation is that over 2018, wage growth will increase steadily in line with competition for labour and the improving business and economic conditions. ABS data indicates that

over the past year 110,000 jobs were created in the State, of which 75,000 were full time and 35,000 were part time jobs. This result has put Queensland's employment growth at 4.7 per cent, highest amongst States since prior to the global financial crisis. Offsetting this is that unemployment remains high at 6.0 per cent compared the national average of 5.5 per cent.

(c) Disposable income

Disposable income is limited by debt. Australians household debt is amongst the highest in the world. Credit card debt alone is some \$32 billion, which is approximately \$4,200 per card holder. This equates to an average of around \$4,200 per card holder. (Australian Securities and Investment Commission money smart website.)

Businesses with consumables that rely on moderate disposable incomes, potentially struggle to survive in the market place. Domino's Pizza for example, its shares fell and are now half of their 2016 highs. Dominos has a 1,500-store franchise network and there are concerns for the viability of some of the outlets. In addition, the Retail Food Group (RFG) - the operator for Donut King, Brumbys, Gloria Jeans, Pizza Capers, Crust Gourmet Pizzas and Michael's Patisserie brands – temporarily withdrew from the Australian Tax Exchange. The RFG recorded a \$87.8 million statutory loss after tax came as it prepared to shut the door on up to 200 of its 1150 stores in Australia. Several factors have been attributed to Dominos and the RFGs for the financial down-turn, one of which must be consumers prioritising disposable income choices.

(d) Business conditions and consumer sentiment

The National Australia Bank's business survey for January 2018 recorded that business conditions were solid in all states, with Queensland's at the higher level. On the other hand, business confidence in the state, although at a reasonable level, was lower than conditions, which aligns with the anecdotal information from the automotive value chain.

The ANZ-Roy Morgan Australian consumer confidence survey (27 February 2018), indicated that consumers overall, were optimistic about economic conditions, current finances and employment. In terms of labour, the Queensland participation rate over the last year has increased from 64.3% to 66.1% as people reenter the labour market looking for their next job.

(e) Interest Rates

The RBA has kept the cash rate at 1.50 per cent since August 2016. Financial market participants expect the cash rate to remain unchanged during 2018 but had priced in a 25-point increase by early 2019. This is indicative of the RBA's steady approach to support economic growth.

(f) Household costs

In the MTA Queensland's previous submissions, your attention was drawn to household costs that impact their budgets and are reiterated:

- The increase in vehicle registration by 3.5 per cent from July 1 2017 - almost double the rate of inflation - announced in the 13 June 2107 State Budget; (For some motorists this increase is remains pending in line the date of their renewal notices.)
- The ongoing financial impact of the National Insurance Injury Scheme (NIIS) Levy (effective from 1 July 2016) of \$34.50 (6 months) or \$69 (12 months); (Vehicle Registration Notice CTP Insurance Class: 1).
- The high costs of electricity, gas, (energy) water and petrol in household budgets. Referring to energy, the Australian Competition and Consumer Commission (ACCC) Chairman has said that

'Australia faces and energy affordability crisis ...(upending) one of Australia's core sources of competitive advantages and caused significant consumer harm.' As a consequence of its retail electricity pricing inquiry report, the ACCC intends to focus on making recommendations to improve electricity affordability across the National Electricity Market and provide recommendations for reform. The final report will focus on 'how to restore Australia's competitive advantage and provide relief to low income households.'

Referring to petrol, acting on a new direction from the Australian Treasurer, the ACCC will monitor the prices, costs and profits relating to the supply of petroleum products and related services in the petroleum industry in Australia. According to the ACCC's recent quarterly petrol report average petrol prices in Australia's five largest cities increased significantly in the December 2017 quarter to be at their highest levels since 2015.

(g) Technological changes

The Association again draws attention to the technological advancements in the automotive sector and the safety of new motor vehicles mitigating the third party personal injury risk profile.

3 Conclusion

3.1 The MTA Queensland appreciates that the MAIC has a statutory duty to maintain prudential standards. In doing, the Association requests that this obligation be balanced against the muted economic indicators particularly low wage growth, that has impacted household budgets. This may be exemplified by the Australian Energy Regulator's (AER) in its 2016-17 annual report. It stated that: 'rising electricity prices are leading to increased numbers of consumers falling behind on power bill payments and struggling to complete financial hardship assistance programs.'

4 The MTA Queensland background

4.1 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. There are some 13,000 automotive value chain businesses employing in excess of 90,000 persons generating up to \$21 billion annually. It is an industrial association of employers incorporated pursuant to the *Industrial Relations Act* of Queensland. The Association represents and promotes issues of relevance to the automotive industries to all levels of Government and within Queensland's economic structure.

4.2 The Association is the leading automotive training provider in Queensland offering nationally recognised training, covering all aspects of the retail motor trades industry through the MTA Institute (MTAI). It is the largest automotive apprentice trainer in Queensland employing 35 trainers geographically dispersed from Cairns to the Gold Coast and Toowoomba and Emerald. The MTAI last financial year accredited courses to in excess of 1,600 apprentices and trainees.

5 Conclusion

5.1 We would be pleased to provide further comment on any matters in our submission that may require further clarification or amplification.

Thank you for your consideration.

Yours sincerely



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Group Chief Executive