

28<sup>th</sup> February 2019

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

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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.

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

**2. Overview and recommendation**

2.1 The MTA Queensland in making its recommendation has carefully considered the direct and indirect economic determinants and the fiscal forecasts over the state and federal budget cycles. This economic data is presented below.

2.2 The Association is also aware that CTP insurance form a significant component of motor vehicle operating costs and are important considerations influencing individual and household automotive consumer demand and investment by commercial operators of road transportation.

2.3 The economic data and forecasts included with this submission indicate that Australia's economy along with the economies of the states and territories are experiencing an aggregate demand. This worrying decline in aggregate demand comprises both consumer and investment demand with a downturn in the housing sector and a significant contraction in the demand for new motor vehicles with the year on year data for January a fall in sales of 3 percent nationally.

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2.4 The Reserve Bank of Australia in the minutes of its monthly meetings indicated that monetary policy settings are now on hold with the official cash rate to stay at 1.5 percent for the near term. For the medium there has been a change in sentiment from an indicated tightening of monetary policy to a very strong possibility to the easing of monetary policy in late 2019.

2.5 Similarly, the Federal budget to be brought down in May this year is expected to have a substantial stimulus for consumer demand by way of personal taxation concessions than first anticipated to restore personal disposal income (PDI).

2.6 With unemployment running in excess of six percent and surplus capacity in Queensland's economy, the state budget to be brought down following the federal budget can be expected to stimulate consumer demand.

2.7 In a state and national economic context in which monetary policy is highly likely to be eased and expansionary fiscal policies to be adopted to restore confidence and return economic growth to long trend rates, it would be incongruous for the MAIC to set CTP floors and ceilings which did not support economic recovery particularly as there is no inflationary imperative to be managed.

2.8 The MTA Queensland therefore urges the MAIC to act prudently in support of state and national economic policies and retain the existing CTP parameters for a further period of twelve months.

2.9 The case for retaining the existing parameters is reinforced by the continued uptake of collision avoidance technology in new generation cars which mitigate risk profiles.

### **3. Context**

3.1 In making this submission the MTA Queensland is cognisant of the MAIC's statutory duty under the terms of the *Motor Accident Insurance Act* (MAIC Act) 1994 10 (d) to 'fix for each class of CTP insurance the range within which an insurer's premium must fall'. In doing so there is a requirement 'to establish a basis for assessing the affordability of CTP insurance and to keep the costs of CTP insurance at a level the average motorist can afford' (MAIC Act Objects 3 (b)). The Association recognises that in this process the MAIC's priority is to maintain prudential standards in determination of premium floors and ceilings.

### **4. The submission**

4.1 As indicated in previous submissions, affordability must be considered in the context of "cost of living" which currently is a dominant concern for households comprising Queensland's economy. This submission requests the MAIC take the following determinants into consideration in setting the floors and ceilings for each class of CTP insurance to be used by insurance providers in setting premiums.

#### **(a) Economic performance**

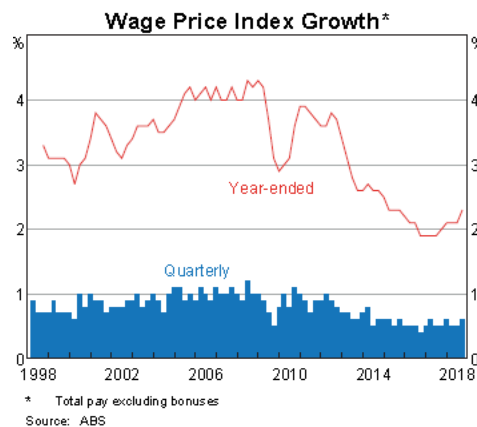
4.2 The Queensland Treasury's Mid-Year Fiscal and Economic Review forecast that the State's economic growth for 2018-2019 at 3 percent and 2.75 percent for 2019-20. The forecast for this financial year's growth may have underestimated the contraction in consumer demand and did not account for the impact of recent natural disasters (bushfires, storms, flood, drought) which will inevitably result in a reallocation of fiscal priorities and impact on economic performance. Perhaps the most significant indicators of the state's economic performance are the housing market and the sales of new motor vehicles which are showing signs that demand has eased.

4.3 The latest Australian Bureau of Statistics (ABS) data confirms Queensland's economic growth has peaked and is now in decline. In trend terms, the State's domestic economy grew by 0.1 per cent in the September quarter and in seasonally adjusted terms it contracted by 0.4 per cent. This compares to 0.5 per cent growth and 0.3 per cent growth respectively for Australia's domestic economy (ABS, Australian National Accounts: National Income, Expenditure and Product, September quarter 2018).

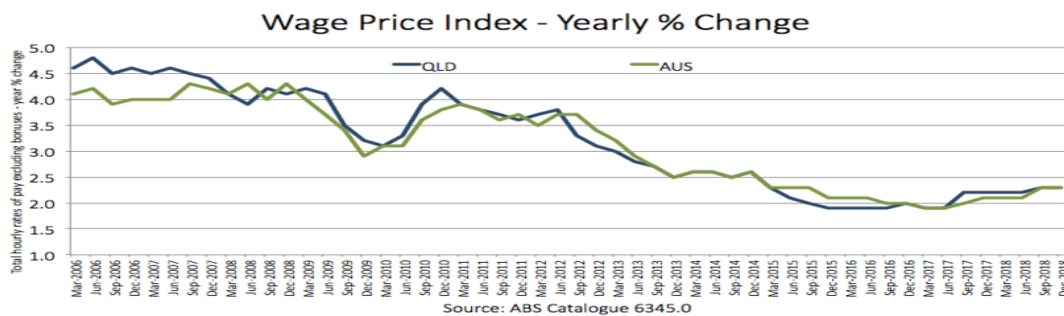
4.4 The recent ABS Labour force data indicates that Queensland has the third highest unemployment rate (trend) in the Commonwealth at 6.1 percent, 1.0 percent above the national average of 5.1 percent. The gap between Queensland's and Australia's unemployment rate has progressively widened since mid-2017.

**(b) Wage growth**

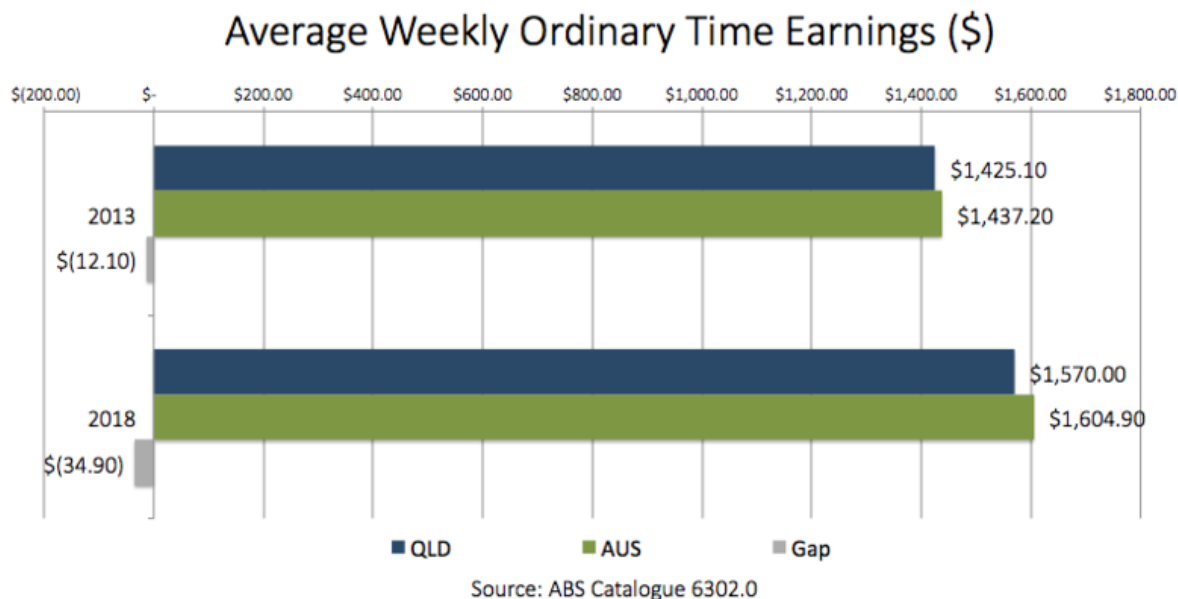
4.5 RBA research indicates that there has been a modest increase in wages growth since 2016 which is consistent with the gradual tightening of the labour market over that period. This trend in wages growth is expected to continue. The graph below indicates the decline in the wage price index growth and the gradual rise from approximately 2016 has not recovered the position the index reached in 2010. Wage growth is essential to encourage household consumption to stimulate economic growth.



The Australian Bureau of Statistics (ABS) Wage Price Index (20 February 2019, Catalogue 6345.0) reveals Queensland wages grew by 2.3% across 2018 and compares to the decade average rate of 2.8%. Wages growth for the State's public sector was 2.4% and compares to private sector growth of 2.3%. The private sector growth is the highest level of increase for the past three years.

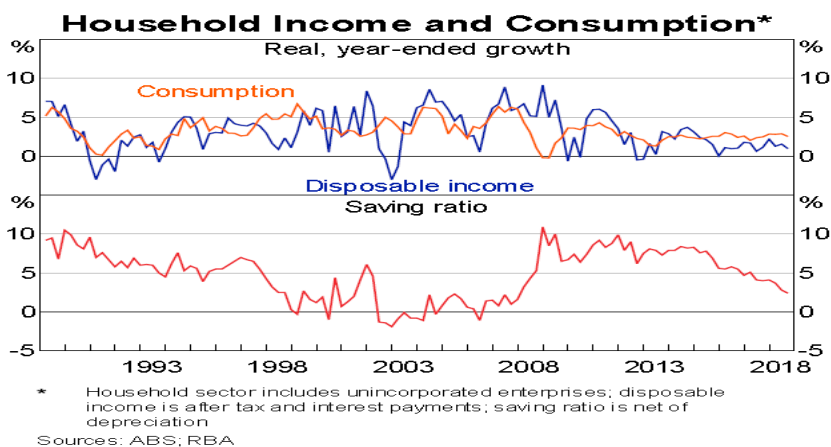


In addition, analysis of ABS Average Weekly Earnings November 2018 (21 February 2019, Catalogue 6302) indicates that Queensland’s average weekly ordinary time earnings and Australia’s in 2013 was \$12.10. In 2018 due to lower wages growth the gap has increased to \$34.90. That is, because national wages growth has consistently exceeded Queensland wage growth resulting in a \$1,185.60 disparity for each year (Queensland Economic Advocacy Solutions, 21 February 2019.)



**(c) Disposable income**

4.6 Personal disposable income is limited by income, taxation, statutory fees and charges and significantly debt. Australia’s household debt is amongst the highest in the world. RBA analysis indicates that: ‘the prospect of continued low growth in household disposable income remains a key risk to the outlook for household consumption, especially given high levels of household debt and the recent declines in housing prices’ (RBA Statement, Reserve Bank of Australia Statement on Monetary Policy, February 2019). The table below indicates that consumption exceeds household income and the savings to income ratio is steadily trending downwards.



4.7 The National Australia Bank consumer anxiety index rose to 62 points in the December quarter – the highest level in three years. Almost 40 per cent of those surveyed said they had experienced financial hardship during the quarter – the highest level in two years. Households indicated they had contracted discretionary expenditure e.g.travel, eating out and entertainment due to heightened anxiety about their personal financial conditions (National Consumer Behavior Q4 2018, 8 February, 2019).

4.8 In regard to the automotive value chain, declining PDI may have contributed to the reduction nationally in annual new motor vehicle sales in 2018 by three per cent compared with 2017 record sales. Other factors reflect a

challenging national economic climate including a slowing housing market, tightening credit conditions and the impact of a severe drought. Similarly, new motorcycle sales fell by 8.7 percent to below 100,000 units.

**(d) Business conditions and sentiment**

4.9 The Suncorp-CCIQ Pulse Business confidence survey for the December quarter recorded a deterioration in business conditions compared with the previous quarter. Over the next twelve months an increased number of respondents anticipated weaker economic conditions whilst fewer expected stronger conditions to return.

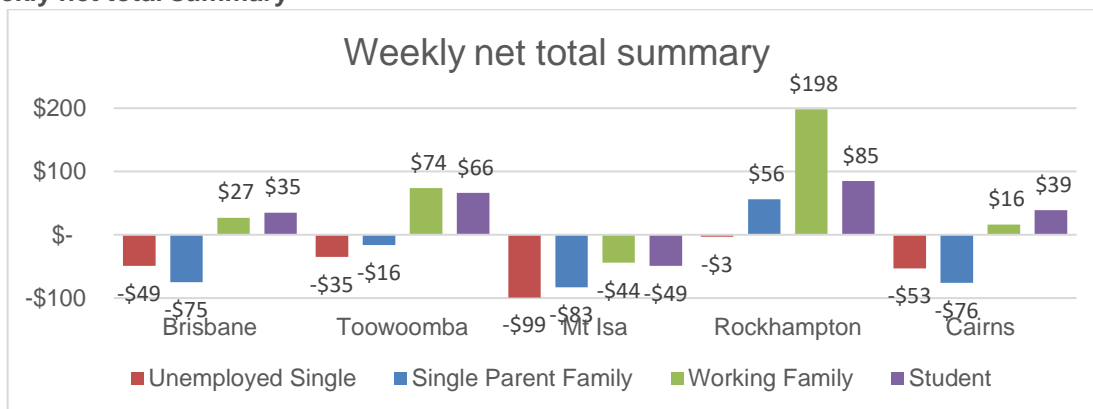
**(e) Interest Rates**

4.10 The RBA has left the official cash rate at 1.50 per cent since August 2016. Financial market participants expect the cash rate to remain unchanged during 2019 although there is speculation that a 25-basis points easing in the official cash rate may be required in view of the challenging economic circumstances.

**(f) Household costs**

4.11 Attention is drawn to the Queensland Council of Social Services ‘Living affordability in Queensland’ report dated February 2019 which indicates that cost of living pressures are increasing for low to average income households. The tabulation below summarises weekly expenses for identified households in five regional areas.

**Weekly net total summary**



## Living affordability for the two-parent family

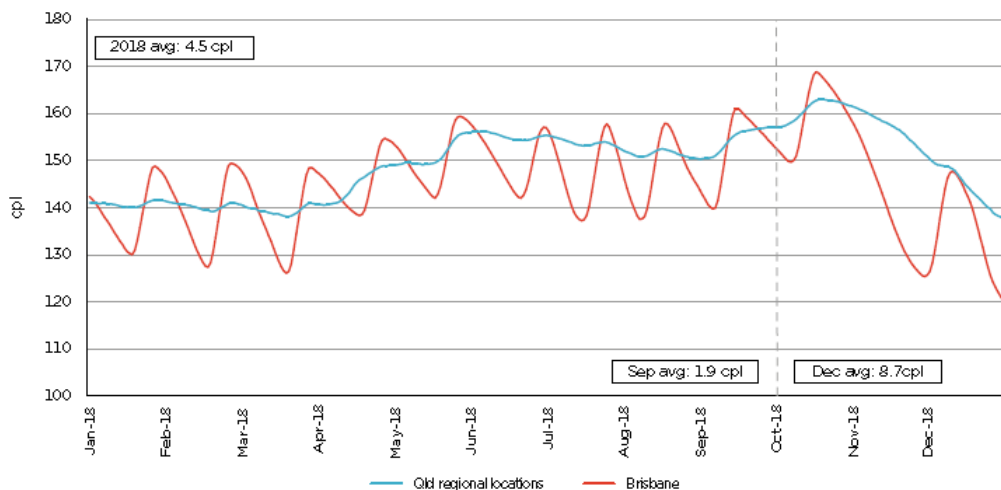
Income and expenditure items	Brisbane	Toowoomba	Mount Isa	Rockhampton	Cairns
Food and drink	\$364	\$400	\$374	\$305	\$419
Clothing and footwear	\$41	\$42	\$38	\$41	\$41
Rent (including water)	\$350	\$256	\$350	\$245	\$290
Electricity	\$31	\$27	\$31	\$31	\$36
Household contents and other services	\$52	\$63	\$51	\$57	\$59
Health	\$133	\$133	\$133	\$133	\$133
Private motor vehicle	\$88	\$89	\$92	\$90	\$101
Automotive fuel	\$69	\$70	\$72	\$71	\$80
Public transport	\$54	\$54	\$112	\$27	\$54
Phone/internet	\$48	\$48	\$48	\$48	\$48
Recreation/entertainment	\$79	\$80	\$80	\$83	\$83
Annual holiday and travel	\$41	\$42	\$42	\$43	\$43
Childcare	\$31	\$31	\$31	\$31	\$31
Education	\$13	\$13	\$13	\$13	\$13
Fees, charges and contents insurance	\$14	\$13	\$12	\$19	\$16
Emergency savings	\$10	\$10	\$10	\$10	\$10
<b>Total expenditure</b>	<b>\$1,418</b>	<b>\$1,371</b>	<b>\$1,489</b>	<b>\$1,247</b>	<b>\$1,429</b>
Full time work - gross	\$957	\$957	\$957	\$957	\$957
Part time - gross	\$409	\$409	\$409	\$409	\$409
Family Tax A (including energy supplement)	\$176	\$176	\$176	\$176	\$176
Family Tax B (including energy supplement)	\$25	\$25	\$25	\$25	\$25
Rent Assistance	\$55	\$55	\$55	\$55	\$55
Other income	\$0	\$0	\$0	\$0	\$0
Tax	(\$177)	(\$177)	(\$177)	(\$177)	(\$177)
<b>Total income</b>	<b>\$1,445</b>	<b>\$1,445</b>	<b>\$1,445</b>	<b>\$1,445</b>	<b>\$1,445</b>
<b>Weekly net total</b>	<b>\$27</b>	<b>\$74</b>	<b>(\$44)</b>	<b>\$198</b>	<b>\$16</b>

4.12 The costs of electricity, gas, (energy) water and petrol weigh down household budgets. Referring to electricity alone, the Australian Energy Regulator records that the average debt of small business (non-hardship) for Q1 2018-19 is \$2,273.20 compared with \$1,824.57 for the 2017-18 quarter. Considering the average residential debt (non-hardship) for Q1 2018-19 is \$706.25 compared with \$616.43 for the 2017-18 quarter.

4.13 Fuel prices are significant contributors to household costs. The Australian Competition and Consumer Commission's report on the Australian petroleum market – December 2018 stated that retail prices in Brisbane were higher than the other four largest cities. Generally, Brisbane prices are the highest among the five largest cities. In the December quarter 2018, this was not the case and retail prices in Perth were the highest of the five largest cities. The quarterly average retail in Brisbane was 142.9 cpl. This was only the third quarter since the cessation of the Queensland retail petrol subsidy in July 2009 in which Brisbane did not have the highest average prices among the five largest cities.

4.14 In December 2018, monthly average regional petrol prices were higher than average Brisbane city prices.

Chart 4.4: Seven-day rolling average petrol prices in Queensland regional locations and Brisbane: 1 January 2018 to 31 December 2018



Source: ACCC calculations based on FUELtrac data.

## **(g) Technological changes**

4.15 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. In the medium term, CTP premiums must adjust to the transition to battery powered vehicles and collision avoidance technologies.

## **5 Conclusion**

5.1 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 headwinds in the form of drought, storms, bushfires, flood, economic indicators and living costs impacting household budgets.

## **6 Background**

6.1 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 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.

6.2 Australia's first automotive hub, the MTA/Q, has been established in specially prepared space at the corporate office. The hub is an eco-system that supports innovation for the automotive industry.

6.3 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 accredited courses to in excess of 1,600 apprentices and trainees.

Thank you for your deliberation.

Yours sincerely



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MTA Queensland