MTA QUEENSLAND

4 March 2020

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

Email: premiums@maic.qld.gov.au

To: MAIC CTP Premiums Team

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

1. Introduction

1.1 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 MTA Queensland.

2. Overview

2.1 The Association recognises CTP insurance forms a significant component of motor vehicle operating costs and is an important consideration influencing individual and household automotive consumer demand and investment demand by commercial operators of road transportation. At this juncture of the economic recovery, we urge a cautious appraisal of the 'factors and trends' that influence the permissible range of insurers' premiums and in determining your legislative obligations.

3 Factors and Trends

3.1 The Association submits the following viewpoints for consideration:

Economic Recovery

3.1.1 In the Reserve Bank of Australia's (RBA) monthly board meeting statement released 2 March, the RBA Chairman said: 'the economic recovery is well under way and has been stronger than was earlier expected' but 'the path ahead is likely to remain bumpy and uneven.' The Commonwealth Bank's chief economist estimates the COVID-recession will incur 'a $50 billion hole in annual input.'

3.1.2 Australian Bureau of Statistics (ABS) and Australian Taxation Office (ATO) economic indicators show there are better prospects for a sustained recovery compared to a few months ago but ongoing restrictions, businesses struggling to fill labour demand and the end of the JobKeeper and the JobSeeker COVID-19 supplement at the end of March remain a drag on the economic recovery.

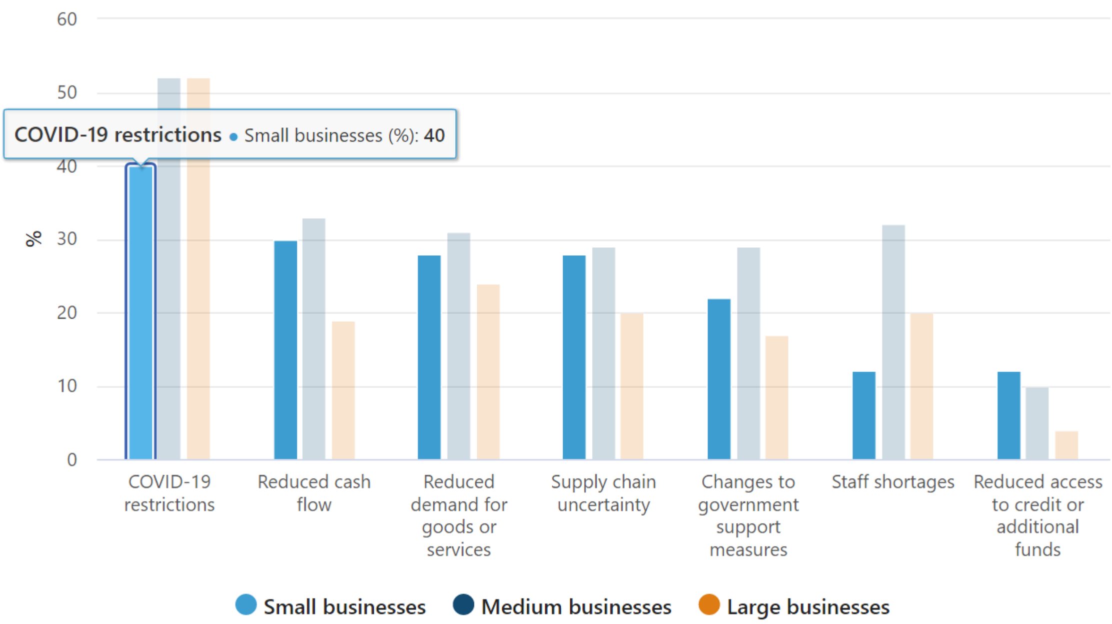
Business

3.1.3 The economic recovery for the automotive industry is in two paced. The motor trades fared well compared to retailers as evidenced by the new vehicle market. Until November 2020, there were 31 months of decreasing new motor vehicles sales causing a series of financial and market challenges during that period. Green shoots appeared in October 2020 and now with three months of improving new vehicle sales, signs are positive for the remainder of the financial year. Although the recovery position for the Automotive Industry is generally trending upward, there are considerable and in some cases extensive delays on supply of products are being experience which impacts actual realised income. There has also been increased operational costs including product and freight costs. An exception to the upward trend as been the Rental Vehicle Industry that are reliant on tourism, any increase in CTP presents a direct increased cost pressure on their business operation cost across their entire fleet.

3.1.4 Recent ABS and ATO data also indicate the economic comeback from the COVID-19 recession continues to gather pace. The ABS's February 2021 Business Conditions and Sentiments survey reveals in February, 30 per cent of businesses were impacted by reduced cash flow and 28 per cent by reduced demand. This compares to 72 per cent and 69 per cent in April 2020. Two in five (41 per cent) businesses reported being impacted by COVID-19 restrictions in February. This compares to 53 per cent in April 2020. In addition, the survey results indicated that for 41 per cent of businesses, cash on hand would cover less than three months of business operations. This compared to 29% in October and June 2020.

3.1.5 The table below (ABS Business Conditions and Sentiment) indicates the factors significantly impacting businesses, by employment size:

Factors significantly impacting businesses, by employment size (a)



(a) Proportions are of all businesses

3.1.6 Queensland has about 445,000 small businesses engaged in every industry sector, representing 97 percent of businesses statewide. These businesses employ approximately 44% of all private sector workers and have been at the forefront of the pandemic's economic damage. The graph above, although a national representation, is illustrative of the impacts experienced.

3.1.7 In Queensland the economic recovery is patchy. The Chamber of Commerce and Industry's (CCIQ) December quarterly Pulse Survey indicated an uplift in economic outlook reporting a third consecutive period of improved business performance and sentiment in the transition from the pandemic. The performance and outlook indicators were positive and above their respective 10-year averages which, over the past decade had long remained low. The resilience and optimism more than likely were buoyed by the prospect of the vaccine. However, vulnerability persists due to potential border closures, restrictions, and the end of the JobKeeper stimulus.

3.1.8 Businesses exposed to restrictions such as tourism and the hospitality industries have reported financial downturns. Since the onset of the pandemic in March 2020 some businesses have remained closed whilst others have been unable to return to profit due to the ongoing decline in revenue. North Queensland tourism and hospitality industries which rely heavily on international visitors continue to have an uncertain future and await the Government's decision of further stimulus following the end of JobKeeper.

3.1.9 The viability of some businesses into the medium term is of concern. The Australian Securities and Investments Commission data indicates 36 Queensland companies went into liquidation and administration in February, up from 27 the previous month. The Australian Small Business and Family Ombudsman highlighted the tax indebtedness of the small business sector as the ATO resumes its tax compliance activity. Collectable debt owed to the ATO has peaked at $34 billion – the majority of which is owed by small business ($21 billion).

Consumers and Households

3.1.10 The recent Westpac-Melbourne Institute of Consumer Sentiment continued to indicate the 'consumer remains extraordinarily confident' which is 'critically important for the economy at this juncture.' The withdrawal of the JobKeeper and the JobSeeker supplement support programs will push recipients to rely on savings estimated by the Reserve Bank at $200 billion or 15 per cent of pre-pandemic annual income and to either return to the business payroll or seek employment. At the December quarter, 728,538 persons were in receipt of JobKeeper, the highest percentage were on the Gold Coast (36%); Sunshine Coast (33%) Moreton Bay North (32%); Moreton Bay South (31%) and Cairns (28%).

3.1.11 Whilst savings maybe an offset to the withdrawal of the stimulus programs there is a concerning underlining personal debt factor. Digital Finance Anaylytics research indicated in 2020, Queensland's' personal debt rose towards $3 billion and that included payday loans, buy-now pay-later services and credit cards.

3.1.12 'Queenslanders had an average of $4038 unpaid on credit cards each month by December 2020, well above the national average of $3197, and $500 more than at the start of the year. Unsecured loans also soared by $800 a person to $8271. But there was an explosion in buy-now-pay-later debt, with the state average more than doubling from $1352 to $2754. Brisbane residents were among the highest for payday loans with an average of $2222 up from $1894. The number of households in Queensland using buy-now pay-later services doubled from 51,000 to 112,000 in the year.'

3.1.13 Whilst credit card and other indebtedness, arguably maybe managed, the paucity of savings will have repercussions for households and individuals with the ending of the pandemic's financial support programs. On a national basis, ME's recent biannual 'Financial Comfort Report" revealed 'one in five households have less than $1,000 in the bank'. The report also showed about one in two people expected it would be difficult to find a job in two months' time.

3.1.14 Young people, have experienced a personal toll from the pandemic which is underscored in the recent research by the Royal Melbourne Institute of Technology "Continuing the 'precedented': Financially disadvantaging young people in 'unprecedent times".
That report highlighted that the cohort experienced lost jobs, lost income, delayed study and higher rents to their long term disadvantage. The Australian Government recognised the impact of lost opportunities and employment on young people and introduced the JobMaker Hiring Credit initiative. This provides businesses with an incentive to take on additional employees aged between 16 and 35 years old. About 450,000 positions for young Australians will be supported through the initiative. The Australian youth unemployment rate is 13.9 per cent; and Queensland rate stands at 15.8 per cent.

4. Conclusion

4.1 Economic activity is not expected to return to its pre-pandemic level until the end of 2021. We urge the MAIC to be cautious in its appraisal of the current factors and trends influencing the cost of insurance under the statutory insurance scheme and to act prudently to support the state and national economic recovery.

5 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. Pre Covid-19 there were some 15,500 automotive value chain businesses employing approximately 88,500 persons generating in excess of $21 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.

5.2 Australia's first automotive hub, the MTA*I*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.

5.3 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 with trainers across the State. The MTA Institute last financial year accredited courses to in excess of 1,600 apprentices and trainees.

Thank you for your consideration of this submission.

Yours sincerely

Rod Camm

Group Chief Executive