



One Company  
Many Brands



**Suncorp Group Limited**

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13 June 2014

Professor Ian Harper  
Chair  
Competition Policy Review  
The Treasury  
Langton Crescent  
**PARKES ACT 2600**

Dear Professor Harper

**RE: COMPETITION POLICY REVIEW – ISSUES PAPER**

Suncorp welcomes the opportunity to provide a submission in response to the *Competition Policy Review – Issues Paper*. This submission is lodged on behalf of Suncorp's General Insurance businesses.

Suncorp is one of the largest general insurance groups in Australia, offering a range of personal and commercial insurance products protecting the financial wellbeing of millions of Australians. As a Group, Suncorp employs nearly 15,000 Australians and has more than nine million customers across the country. Its General Insurance business alone paid out \$5.8 billion in insurance claims in 2012-13, averaging more than \$15 million each day.

The Australian insurance market is competitive and diverse and serves its customers well. Given the effective operation of the market, Suncorp believes the role of government should be to promote innovation in the sector and minimise market intervention such as increasing regulation and red tape, or running government enterprises that compete with the private sector.

In a competitive market, industry should take responsibility for setting standards and self-regulating conduct. Suncorp fosters strong relationships with our suppliers and each year we partner with thousands of suppliers ranging from medical and allied health professionals, builders, white goods retailers, smash repairers to jewellers. Suncorp has been instrumental in developing codes of practice which aim at promoting good faith dealings and the highest standards of quality and service for our customers.

Suncorp does not believe the government should continue to operate their own insurance ventures. Suncorp considers it appropriate for government to run disability services such as the National Disability Insurance Scheme (NDIS) and the National Injury Insurance Scheme (NIIS). However, broader personal injury insurance schemes such as Workers Compensation and Compulsory Third Party insurance should be opened to competition through the private market.

Currently, many personal injury insurance schemes operate as state-owned monopolies which have escaped the reach of two decades of broad-scale competition reforms. The liability for this market sits primarily with government when there is capacity, expertise and capital within the private sector to

manage this risk. Suncorp believes there would be substantial productivity and efficiency gains in privatising these schemes including improvements in pricing, claims management and health outcomes for claimants. Private insurers also have a strong motivation to innovate and continuously improve in order to retain customers and grow market share.

Suncorp encourages the Panel to revisit the role of state-owned monopolies and recommends that all jurisdictions privatise their personal injury insurance businesses.

Suncorp would be happy to provide further information to the Panel to assist with your deliberations. Should you have any further questions regarding our submission, please contact Mike Thomas, Manager Group Government and Stakeholder Relations on 02 8121 3115 or at [mike.thomas@suncorp.com.au](mailto:mike.thomas@suncorp.com.au).

Yours sincerely



Anthony Day  
**CEO Commercial Insurance**



Mark Milliner  
**CEO Personal Insurance**



# Competition Policy Review 2014

Suncorp General Insurance Submission



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# Executive Summary

Suncorp Group (Suncorp) welcomes the opportunity to provide a submission to the Competition Policy Review. It is timely to review competition settings across the country and Suncorp looks forward to engaging with the Review Panel throughout the review process.

Australia's insurance market is competitive and diverse. With over 116 general insurers operating locally, the industry is made up of a number of successful Australian companies as well as major global players who operate in insurance markets across multiple countries. The industry also benefits from a combination of strong prudential regulation and industry-initiated codes of practice. Given the effective operation of the market, Suncorp believes the role of government should be to foster innovation in the sector, rather than to intervene through additional regulation, red tape or running government enterprises that compete with the private sector.

In a competitive market, industry should take responsibility for setting standards and self-regulating conduct. Suncorp fosters strong relationships with our suppliers and each year we partner with thousands of suppliers ranging from medical and allied health professionals, builders, white goods retailers, smash repairers to jewellers. Suncorp has been instrumental in developing codes of practice which aim at promoting good faith dealings and the highest standards of quality and service for our customers.

Suncorp does not believe the government should continue to operate their own insurance ventures. Suncorp considers it appropriate for government to run disability services such as the National Disability Insurance Scheme (NDIS) and the National Injury Insurance Scheme (NIIS) and we have been advocates of these schemes. However, broader personal injury insurance schemes such as workers compensation and compulsory third party (CTP) insurance should be opened to competition through the private market.

Currently, many personal injury insurance schemes operate as state-owned monopolies which have escaped the reach of two decades of broad-scale competition reforms. The liability for this close to \$17 billion market sector sits primarily with government. This is despite there being capacity, expertise and capital within the private sector to manage this risk.

Suncorp believes there would be substantial productivity and efficiency gains in privatising these schemes. In the insurance market, private sector competition is a key driver of innovation and can lead to improvements in pricing, claims



management and health outcomes for claimants. Private insurers also have a strong motivation to innovate and continuously improve in order to retain customers and grow market share. Suncorp encourages the Panel to revisit the role of state-owned monopolies and recommends that all jurisdictions their personal injury insurance businesses.



# Introduction

Suncorp is one of the largest general insurance groups in Australia offering a range of personal and commercial insurance products protecting the financial wellbeing of millions of Australians. As a Group, Suncorp has nearly 15,000 employees and more than nine million customers across the country. Its General Insurance business alone paid out \$5.8 billion in insurance claims in 2012-13, averaging more than \$15 million each day.

Suncorp offers a range of personal insurance products including car, home and contents, travel, boat, motorcycle and caravan insurance. The key to Suncorp's success in personal insurance is its portfolio of well-known brands. These include Suncorp Insurance, Apia, AAMI, GIO, Vero, Shannons, Just Car Insurance, Insure My Ride, Bingle, Terri Scheer, CIL Insurance and Resilium. These brands have built reputations for insurance innovation, outstanding customer service and trustworthy products.

Suncorp also offers commercial insurance products that serve the needs of a wide range of business customers, from small business operators to global companies. The Commercial Insurance portfolio of brands includes GIO, AAMI, Suncorp Insurance, Vero and Resilium. Suncorp is also Australia's largest personal injury insurer offering workers compensation and CTP insurance, which serve the needs of governments, employers and the community.



# Industry Overview

The Australian General Insurance industry is a competitive market with a level playing field and relatively low barriers to entry. There are 116 general insurers operating locally including 104 direct insurers and 12 reinsurers. Of these, a number are major global players operating in insurance markets across multiple countries.

## Economic contribution

The industry makes a sizeable contribution to the economy. In terms of the size of the market, in 2013 gross premiums of around \$41 billion were collected by Australian general insurers and industry has assets of around \$113 billion.<sup>1</sup>

## Competitive market

In recent years, “there has been an intensification of competition and contestability broadly across the general insurance sector”<sup>2</sup> according to the Federal Treasury. A major contributing factor to this shift has been the advent of new entrants to the general insurance market, such as Youi, Budget Direct and non-traditional entrants such as Coles and Woolworths.

Despite the competitiveness of the overall market, there is concentration in home and strata insurance in certain high risk areas, including North Queensland. This was noted by Treasury’s recent submission to the 2014 Financial System Inquiry which observed that “areas such as North Queensland have comparatively few insurers prepared to do business in property insurance, due to concerns over storm and cyclone risk.”<sup>3</sup> That said, recent Roy Morgan market share data shows that at least nine separate insurers are operating in North Queensland, to varying degrees.

In the statutory classes of insurance there is limited competition. Currently, only the ACT has privatised workers compensation and CTP schemes. At the Commonwealth level, Comcare remains underwritten and managed by the Federal Government. Workers compensation is also underwritten by the private sector in the Northern Territory, Tasmania and Western Australia. New South Wales, South Australia and Victoria have public underwriting but outsource claims management to the private sector.

CTP schemes also involve limited numbers of private sector insurers. CTP is underwritten by the private sector in NSW and Queensland, with a private sector scheme agent managing claims in South Australia.

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<sup>1</sup> Insurance Council of Australia.

<sup>2</sup> The Department of Treasury, *Submission to the 2014 Financial System Inquiry*, Canberra, 2014,p56.

<sup>3</sup> *Ibid.*, p65.



# Supply Chain Relationships in the Insurance Industry

Suncorp promotes good faith in our dealings and believes industry should be responsible for setting behavioural standards and participating in effective dispute resolution. Suncorp is a strong advocate of industry initiatives and has been a founding signatory to a number of voluntary codes of practice. Suncorp supports this cooperative approach over mandatory and prescriptive market intervention which can limit the benefits of competition by increasing costs, creating red tape, limiting choice and removing incentives to innovate.

Suncorp deals with a range of suppliers from medical and allied health professionals, legal professionals, builders, white goods retailers to jewellers. Based on the significant challenges facing the motor vehicle repairers industry, Suncorp currently has a deeper engagement with suppliers in this industry sector. The motor repairers industry faces challenges from industry consolidation, advances in modern vehicle technology and an aging workforce. Suncorp is committed to working with the sector to support practices that will strengthen the industry, such as fostering industry-leading repair services for customers through supporting apprentices, providing greater access to repair information and developing innovative repair methods as part of our joint ventures.

## Codes of Practice

The conduct of the Insurance industry is bound by the terms of the *General Insurance Industry Code of Practice 2014*<sup>4</sup>. The purpose of the Code is “to commit insurers and the professionals they rely upon to higher standards of customer service”<sup>5</sup>. This Code also binds insurers to accept responsibility for the quality of workmanship and materials provided by any of our suppliers.

## Industry-specific Agreements

The General Insurance Industry also has an industry-specific agreement which underpins Suncorp’s relationship with one of its major suppliers, motor vehicle repairers. Suncorp was a founding signatory of the *Motor Vehicle Insurance and Repair Industry Code of Conduct*<sup>6</sup>, a voluntary industry code which has been in place since 2006. Suncorp has also been long-standing member of its administration committee. The Code, whose members includes the Insurance Council of Australia and motor vehicle repairer industry groups, was established to codify the relationship

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<sup>4</sup> <http://www.codeofpractice.com.au/Portals/0/Code%20of%20Practice%202012%20-%20FINAL%201.pdf>

<sup>5</sup> *Ibid*, p4.

<sup>6</sup> <http://www.abrcode.com.au/about.aspx?p=4>





between insurers and repairers and provide consumers with a more efficient and competitive repair industry.

The Code covers standards of fair trading, process and transparency in the relationship between insurers and repairers. Importantly, it was not intended to interfere with the commercial relationship between the parties or to in any way reduce competition within this industry sector.

### **Advisory Bodies**

Suncorp values the experience of its motor vehicle repair industry partners. In 2011, it established Suncorp Repairer Advisory Councils across a number of jurisdictions. These consultative bodies are made up of experienced repairers from Suncorp's panel of recommended repairers, providing invaluable advice to Suncorp on all of its repair-related initiatives. They also provide on the ground feedback regarding how to improve Suncorp's day to day services and operations and help drive the development of its Vehicle Repairer Standard.

### **Working in Partnership**

Suncorp is committed to having a long-term and sustainable motor vehicle industry across the country. Beyond its formal commercial relationships, over many years Suncorp has invested in training, technology and industry development with more than 50 initiatives in place to support the industry. These initiatives include funding for apprenticeships and post-apprenticeship training, along with equipment grants for TAFEs to buy the latest repair equipment. Suncorp has also developed new support tools for the industry, including the eScribe system which provides access to an extensive array of vehicle manufacturers' specifications and researched repair methods that were previously not broadly available to the industry.

Suncorp is also involved in a number of joint ventures with partners in the motor vehicle repair industry. This includes investing in Capital SMART Repair centres that handle small-to-medium repairs as well as QPlus Productions which focuses on structural repairs. These businesses support innovation and increase quality, customer service and productivity within the industry.



# Role of Government-Owned Bodies in Insurance

A fundamental tenet of competition policy is that legislation should not restrict competition and government monopolies should be structurally reformed. Failing to undertake this reform prevents the benefits of competition from being delivered to insurance consumers.

As the Issues Paper notes, in the past governments owned a significant number of commercial enterprises. Up until the 1990s every state and territory ran a government insurance office that competed with private sector insurers. Since then, most jurisdictions undertook to privatise their insurance businesses and allow greater competition in their local markets.

Despite this significant shift in public sector involvement in the insurance sector over 20 years ago, today governments across the country continue to play a commercial role in the insurance industry. In every jurisdiction apart from the ACT, workers compensation schemes and/or CTP schemes are run by government bodies.

Privatising schemes presents a significant opportunity to improve productivity across the country. Combined, workers compensation and CTP are worth nearly \$17 billion in gross written premiums nationally each year. By introducing additional competition into these schemes there is the potential to bolster transparency, innovation, efficiency and service provision in this vital market.

This is an area where, as the Productivity Commission has found:

*the reform process to date has failed to take advantage of opportunities to deliver better outcomes for those requiring these insurance products and for the community more generally.<sup>7</sup>*

With a renewed focus on where competition policy should be positioned in Australia, Suncorp believes it is timely to focus on opportunities to review the ongoing involvement of governments in the underwriting and delivery of statutory personal injury insurance schemes and examine how to increase efficiency and productivity in this multi-billion dollar sector.

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<sup>7</sup> Productivity Commission, *Review of National Competition Policy Reforms*, Canberra, 2005, p269.



## Personal Injury Insurance Schemes

Suncorp supports the underwriting of catastrophic personal injury and has been a keen advocate of the NDIS and NIIS. There is a clear social benefit in governments retaining this function. Public underwriting of catastrophic injuries under the proposed NDIS/NIIS scheme is necessary as the cost of capital the prudential regulator requires would be prohibitive based on the 'long-tail' nature of these claims and the volatility of claims costs over the lifetime of the injured person. The public sector is well equipped to provide services through a lifetime care scheme that deliver appropriate care and support on a needs basis.

By contrast, the advantages of private sector underwriting in personal injury insurance schemes such as workers compensation and CTP have long been established through past reviews.

## Workers Compensation

The first statutory scheme Suncorp believes is worthy of review is workers compensation. The size of the workers compensation market is significant. In 2012-13, it was worth \$11.5bn in gross written premiums nationally.

Currently, each state and territory, as well as the Commonwealth, operates their own scheme. What they do have in common however is that most schemes (Commonwealth, New South Wales, Victoria, Queensland and South Australia) continue to operate as single jurisdiction government monopolies.

## Compulsory Third Party Insurance

The second statutory scheme that could benefit from private sector involvement is CTP. Nationally, CTP is worth around \$5.3 billion in gross written premiums annually<sup>8</sup>. Like workers compensation, each jurisdiction runs different schemes. Currently, only New South Wales, Queensland and the ACT have private sector underwriting.

## Previous Competition Reforms

In the past a number of reviews have addressed the potential for greater private sector involvement in these schemes. It is widely accepted that private sector competition can bring a number of benefits to businesses that have previously been run by public sector enterprises.

Since the Hilmer Review and the introduction of the National Competition Policy, there have been significant productivity and efficiency gains across numerous sectors. As the Issues Paper itself notes, these have included the water, energy

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<sup>8</sup> APRA, *General Insurance Supplementary Statistical Tables*, Canberra, June 2013.



transport and telecommunications sectors. Some of the key reforms in these areas included privatisation, the structural separation of the commercial body and the regulator, as well as pricing reforms. Regrettably, the personal injury insurance sector has not experienced the same reform momentum over the past 20 years.

In 2005, the Productivity Commission reviewed the progress of the National Competition Policy reforms, including the role of state-owned monopoly insurers and found:

*[a]s part of the NCP process, all States and Territories have conducted separate legislation reviews of monopoly insurers and premium controls. However, moves to implement the recommendations arising from these reviews have been slow, with no action occurring in some cases. For instance, despite all of the initial reviews into the monopoly provision of CTP insurance recommending that more competition be introduced — and three out of the five workers' compensation reviews reaching the same conclusion — no jurisdiction has, as yet, amended legislation to allow this to happen. In some instances, governments have commissioned further reviews that have overturned the initial findings and recommended retaining monopoly insurers.<sup>9</sup>*

In relation to workers compensation specifically, in 2004 the Productivity Commission undertook a comprehensive review of schemes across the country. Amongst their findings, the Productivity Commission determined that the private sector is better placed to run such schemes:

*on balance, private provision is preferred on grounds that: private capital is directly at risk; competition in the marketplace is likely to generate incentives for efficiency and innovation; and there is greater transparency of any governmental influence over premiums. Further, the risk of private insurer failure can be reduced by prudential regulation.<sup>10</sup>*

More recently, the advantages of shifting workers compensation scheme functions into the private sector were recognised by the 2014 National Commission of Audit. In relation to the Commonwealth workers compensation scheme, it recommended that:

*Comcare's claims management function be outsourced and private sector underwriting of Comcare's workers' compensation insurance scheme pursued.<sup>11</sup>*

A particular concern in relation to Comcare is a lack of competitive neutrality. Comcare currently directly competes with private insurers underwriting state based schemes. However, it is not subject to any of the same prudential and capital requirements as its private sector counterparts. This creates an uneven playing field as the public enterprise does not face the same costs as general insurers.

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<sup>9</sup> Productivity Commission, *Review of National Competition Policy Reforms*, Canberra, 2005, p268.

<sup>10</sup> Productivity Commission, *National Workers' Compensation and Occupational Health and Safety Frameworks*, Canberra, 2004, p323.

<sup>11</sup> National Commission of Audit, *The Report of the National Commission of Audit – Phase Two*, Canberra, March 2014, pxxvi.



## Benefits of Privatisation in Personal Injury Insurance

In the insurance market, private sector competition is a key driver of innovation and can lead to improvements in pricing, claims management and health outcomes for claimants. Private insurers have a strong motivation to innovate and continuously improve in order to retain customers and grow market share. These improvements have positive outcomes for the conduct of the scheme and its participants and would provide a significant public benefit.

For example, competition in the privatised CTP markets of Queensland and NSW has led to some insurers providing additional at-fault driver cover to attract and retain customers. Insurers provide this benefit at no additional cost to their CTP customers, potentially placing them at a competitive advantage over other insurers.

Many insurers also operate across several jurisdictions and provide various injury insurance products. This cross-market experience allows insurers to quickly identify new developments and extend innovations into other markets.

Privatisation also drives market outcomes through:

- separation of interests between the regulator, underwriter, the Government and the regulated activity, and
- more efficient use of capital by private organisations striving to compete for capital, driving greater innovation, service levels, efficiency, and responsiveness to stakeholder needs.

The net economic benefit to government in privatising accident compensation schemes include:

- keeping systemic and investment risk away from government and placed onto private insurers and claims agents;
- keeping scheme liabilities off the public sector balance sheet and on the private sector balance sheet, protecting public sector net asset position and credit ratings from unforeseen adverse market movements; and
- improving government capital management strategies by unlocking capital to reallocate to economic growth initiatives and other public policy needs.

Insurers in privately underwritten schemes are prudentially supervised by APRA to ensure sufficient capital adequacy to meet outstanding liabilities. The benefit for Government is the protection of balance sheets and credit ratings. This leaves Government in a position to focus on the core role of scheme regulation, without the need to underwrite and manage schemes.



Despite the clear benefits private sector insurers can provide, personal injury insurance has long been overlooked in the context of competition reforms. Suncorp encourages the Review Panel to consider the reform potential for this sector of the economy and the efficiency and productivity gains that could be attained through privatisation.



# Conclusion

Suncorp supports a competitive and contestable general insurance industry and believes in the fundamentals of competition delivering better results for consumers and the broader economy.

As part of day to day business, Suncorp is proud of the strong relationships it develops and maintains with its suppliers to help get customers back on their feet. Suncorp continues to invest in industry partnerships and business to business relationships that foster innovation and best practice across its supply chain. Ultimately, the aim is to deliver lower prices and better quality for consumers.

There remains an untapped opportunity to drive innovation, investment, efficiency and stronger outcomes through competition in personal injury insurance schemes across Australia. The liability for this close to \$17 billion market sector currently sits with government when there is untapped capacity, expertise and capital within the private sector to manage this risk. The current Review provides a timely opportunity to review these state-owned monopolies and Suncorp recommends that all jurisdictions privatise their personal injury insurance functions.