

## COMPULSORY THIRD PARTY INSURANCE AND NATIONAL COMPETITION POLICY

In 1995, all nine Australian Governments agreed that in order to stimulate economic growth and job creation in our increasingly internationally focussed economy, a co-ordinated approach to market reform was required.

As a result, all Governments undertook to implement, on an ongoing basis, a package of reforms to be known as the National Competition Policy. These reforms are designed to help develop a more dynamic and competitive economy.

In its simplest form, 'competition' in a marketplace is about choice and exists when a number of businesses strive against each other to attract customers and sell their goods and services. Generally competition will foster production efficiency and innovation and thus generate lower prices, greater choice and better levels of service for consumers.

One of the most important National Competition Policy undertakings is that each Government will review and reform all laws that restrict competition. The guiding principle is that laws should not restrict competition unless the benefits to the community as a whole outweigh the costs and the objectives of the law can only be achieved by restricting competition.

Governments that restrict the provision of a compulsory third party insurance to a single monopoly provider must therefore review their laws to determine if the restriction on competition is of benefit to the whole community.

## ISSUES FOR GOVERNMENTS TO CONSIDER

The fact that a number of States currently have numerous competitive providers of compulsory third party insurance suggests that the case for maintaining monopoly insurance services must be scrutinised closely.

The existence of both monopoly and competitive schemes demonstrates that the major objectives of compulsory third party insurance can be achieved in a variety of ways.

Governments can make different choices on issues such as benefit levels and access to common law claims, and these choices can be accommodated under both competitive and monopoly schemes.

In the past few years there have been substantial changes in the Australian finance and insurance markets. The National Competition Policy reviews of monopoly provided compulsory third party motor insurance are therefore an opportunity to ensure that the restrictions on competition are still serving the interests of the community as a whole.

For more information please contact the  
**National Competition Council**  
Level 12 2 Lonsdale Street  
Melbourne Vic 3000  
P: [03] 9285 7474  
F: [03] 9285 7477  
E: [info@ncc.gov.au](mailto:info@ncc.gov.au)  
W: <http://www.ncc.gov.au>

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# COMPULSORY THIRD PARTY MOTOR VEHICLE INSURANCE

National Competition Council  
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## THE ROLE OF INSURANCE

Insurance compensates us for loss or injury when something goes wrong. Insurance services are available for a wide range of areas and activities, including life, home and contents, and travel.

In most cases, individuals freely choose whether to insure themselves, based on their personal circumstances and their own assessment of the risks they face. However, there are some types of insurance that are required by law. One of these is compulsory third party motor vehicle insurance.



## WHAT IS COMPULSORY THIRD PARTY INSURANCE?

Compulsory third party insurance covers personal injury costs for people injured in motor vehicle accidents, including drivers, passengers and pedestrians.

Governments have mandated third party motor vehicle insurance because a person likely to suffer harm in a motor accident is not necessarily the person who is the best position to control the risk.

Third party motor vehicle insurance recognises that motorists have a duty of care to other road users. Compulsory insurance ensures that someone injured by the actions of another in a motor vehicle will be able to be compensated.

In addition, driving is a high-risk activity. Therefore, governments are seeking to ensure that the large number of people injured on our roads receive adequate compensation. This is particularly important given that the costs of claims are, on average, high.

The absence of mandatory insurance would mean that people injured in a motor accident would have to seek compensation through costly private legal action with the risk that they could be unsuccessful. The financial consequences for those involved would often be disastrous, and could result in the injured party not receiving the medical care they need.

Compulsory insurance is also an effective way of ensuring that the personal injury cost resulting from road accidents is borne by motor vehicle owners - rather than the community at large.

While all Australian Governments agree that the compulsory nature of third party motor vehicle insurance provides important benefits to the community there are many differences between the current State and Territory schemes.

In particular some States have single or monopoly insurers while others have numerous insurers competing against each other.

## COMPULSORY THIRD PARTY MOTOR VEHICLE INSURANCE IN AUSTRALIA

While every one of the twelve million vehicles that are registered in Australia must have compulsory third party motor vehicle insurance, each State and Territory has separate schemes.

In most States and Territories compulsory third party insurance is paid with motor vehicle registration every year. Additional optional insurance is also available to cover other potential liabilities, such as damage to another vehicle, your own vehicle or other property.

Generally, the objectives of compulsory third party insurance schemes are to:

- insure motorists against personal injury claims arising from motor accidents
- compensate accident victims' and their families for injuries or death
- ensure driving remains affordable



### INSURANCE AND THE COST OF PREMIUMS

The level or cost of insurance premiums is largely determined by the number of claims and the level of benefits paid. If there are a large number of claims and the benefits paid are high then premiums will also be high. If there are few claims and/or low benefits are paid then the premiums will be lower.



## HOW ARE GOVERNMENTS INVOLVED?

All State and Territory Governments have taken a major role in determining the characteristics of their compulsory third party insurance schemes. Governments set benefit levels and determine if victims of accidents can also access the Courts for common law claims of negligence by motorists. Governments also determine how insurance schemes set and use vehicle classification categories and how premiums are collected. Although these factors may vary from State to State they all have an impact on the overall cost of running a compulsory third party insurance scheme and the premiums that motorists are charged.

Another factor which may affect the cost of insurance – and therefore premiums – is the question of who provides the insurance. Is it a monopoly or are there numerous competing insurers?

## MONOPOLY OR COMPETITIVE INSURERS?

While the majority of Australian States and Territories have monopoly compulsory third party insurance schemes, competitive arrangements cover almost half the number of vehicles on the roads.

An advantage of having a single insurer is that its sheer size enables economies in administration, particularly of the large pool of money derived from premiums.

In addition, monopoly insurers have greater incentive to provide general road education and prevention services, as they directly benefit from improved safety through reduced claims. General road education and accident prevention services can nevertheless be provided within a competitive market, by levying the insurers or motorists to pay for these services.

Government owned monopoly insurers may provide dividends for government when they make a profit. However, any losses are also ultimately borne by the taxpayer. For instance the former monopoly scheme in New South Wales was still in debt by more \$400 million ten years after it closed. Ultimately this debt will be borne over time by motorists and/or by taxpayers.

Insurers who face competition for customers do have greater incentives to keep their customers satisfied or risk losing market share. Competitive insurers are therefore more likely to offer a wider range of products and services, better suited to individual customers at competitive prices.

### MONOPOLY OR SINGLE INSURER

Victoria  
Western Australia  
South Australia  
Tasmania  
Northern Territory

### COMPETITIVE INSURERS

New South Wales  
Queensland  
ACT\*

*Table correct as at October 2000*

*\*In the ACT, competition is allowed, but only one insurer, the NRMA, operates.*