

28 November – 1 December 2004

Xth Accident Compensation Seminar

2004



Institute of Actuaries of Australia

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Xth Accident Compensation Seminar 2004

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Private versus Public Underwriting

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Outline

- Introduction
- Agreed Basis of Assessment
- Examination of recent public sector scheme performance
- Private sector performance
- The role of capital
- Discussion



Isn't it interesting....

- Queensland and NSW
 - Public sector workers compensation
 - Private sector CTP
- Western Australia and Tasmania
 - Private sector workers compensation
 - Public sector CTP
- Private underwriting does work!



Agreed Basis of Assessment

- National Competition Policy
- Competition Principles Agreement
- Competitive Neutrality
- Agreed April 1995
- Re-affirmed November 2000
- Further Review September 2005



Competitive Neutrality

- Eliminate resource allocation distortions arising out of public ownership of significant business activities
- Government businesses should not enjoy net competitive advantage because of public sector ownership



Competitive Neutrality (2)

An essential element of the obligations is that government business activities, like their private sector counterparts, set prices that enable them to earn sufficient revenue to cover their costs, including the cost of capital.

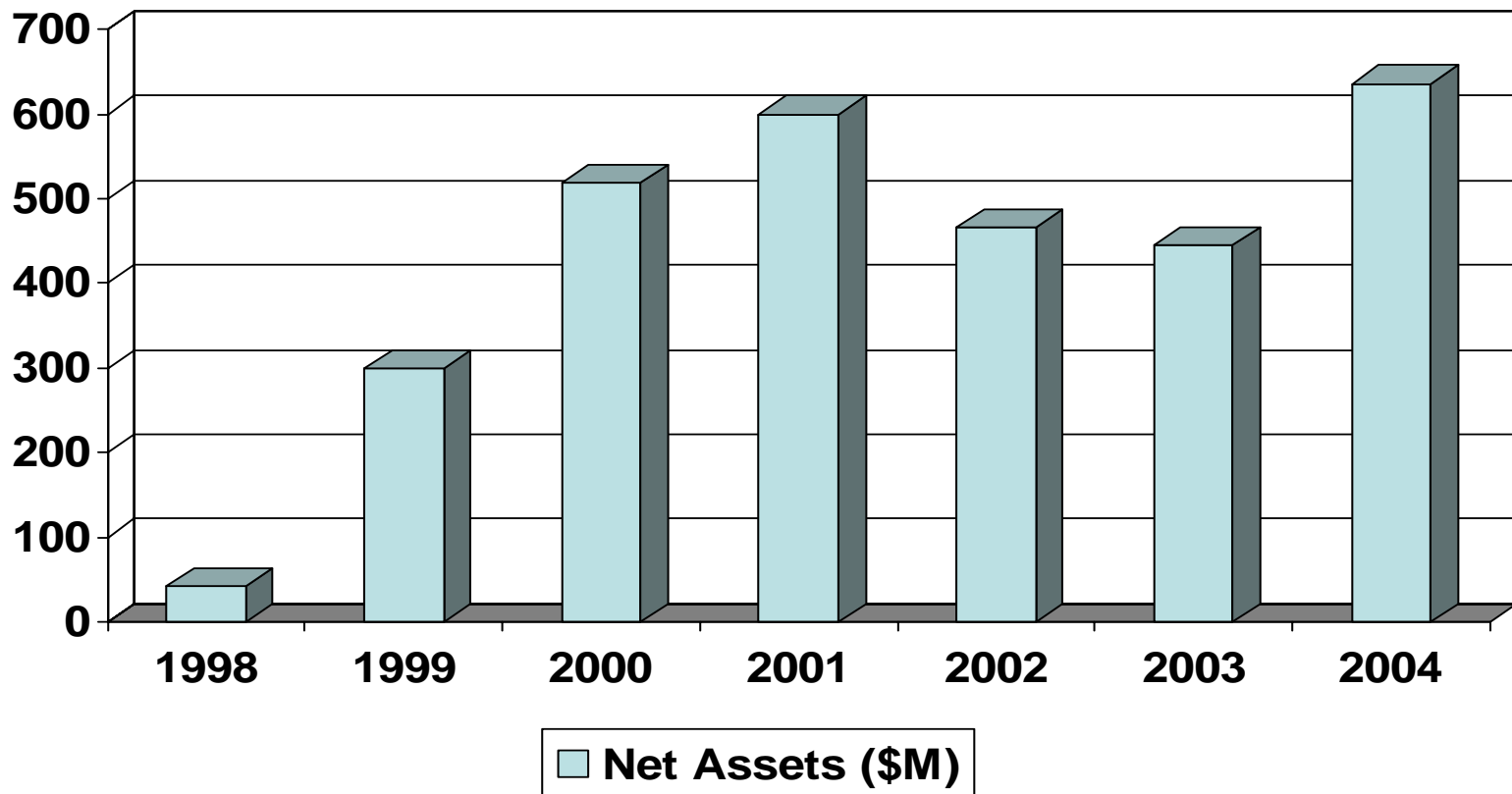


What does this mean?

- Operational issues such as reporting, asset management, premium setting
- All relevant taxes and charges and duties (including the NSW IPT)
- Compliance with APRA General Insurance Prudential Standards
- Maintenance of, and provision of a commercial return on, notional capital

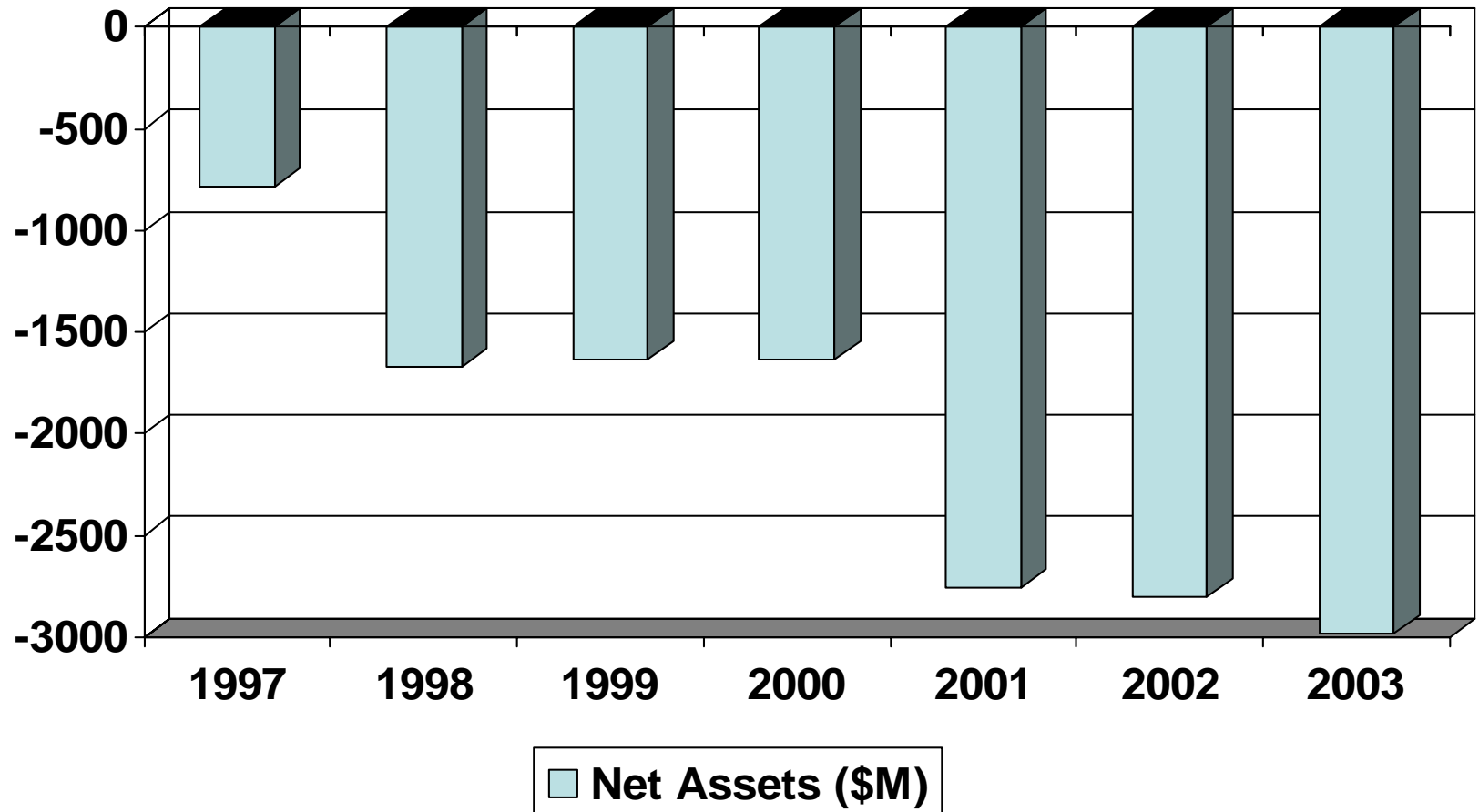


Queensland



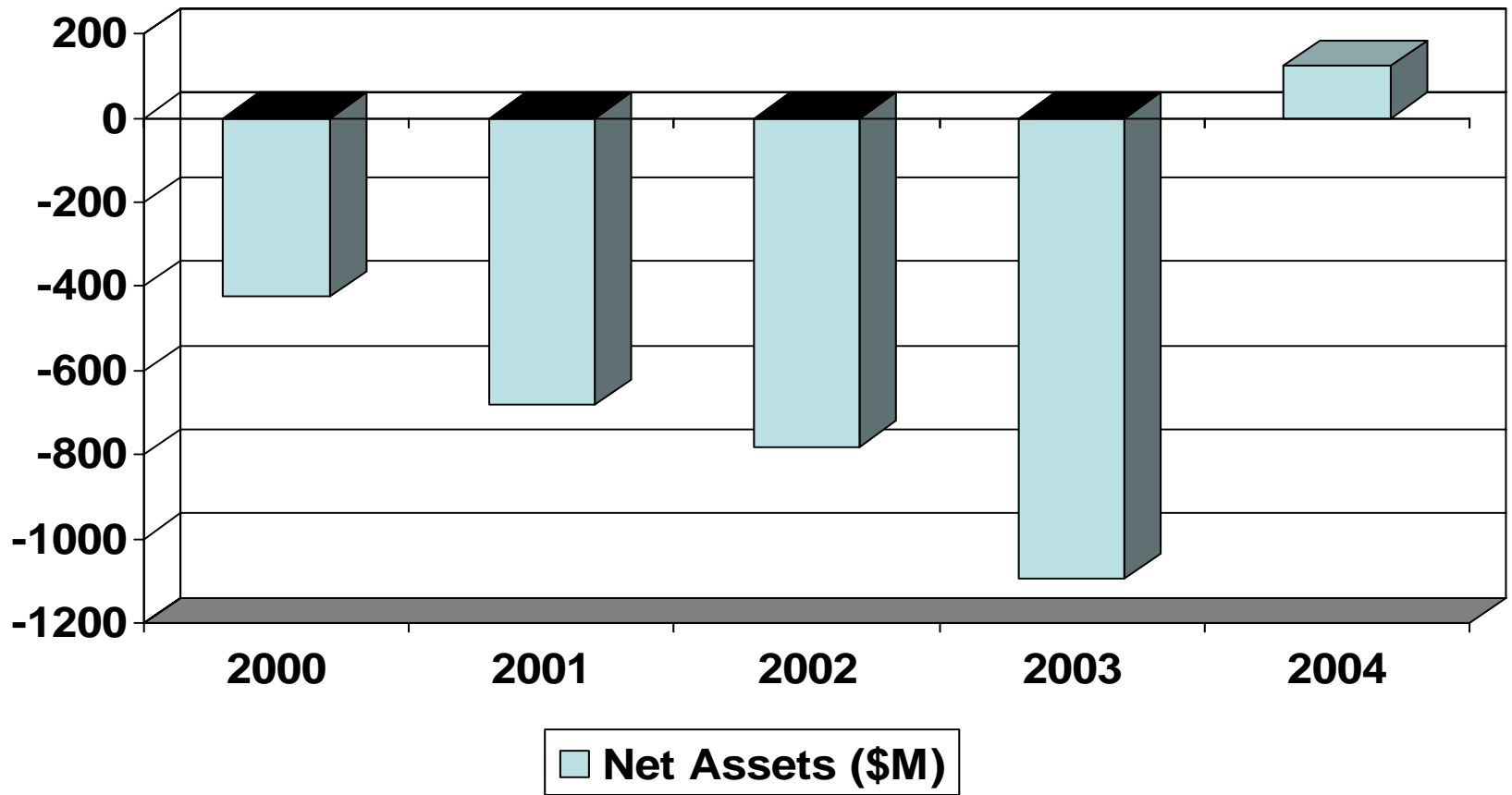


New South Wales



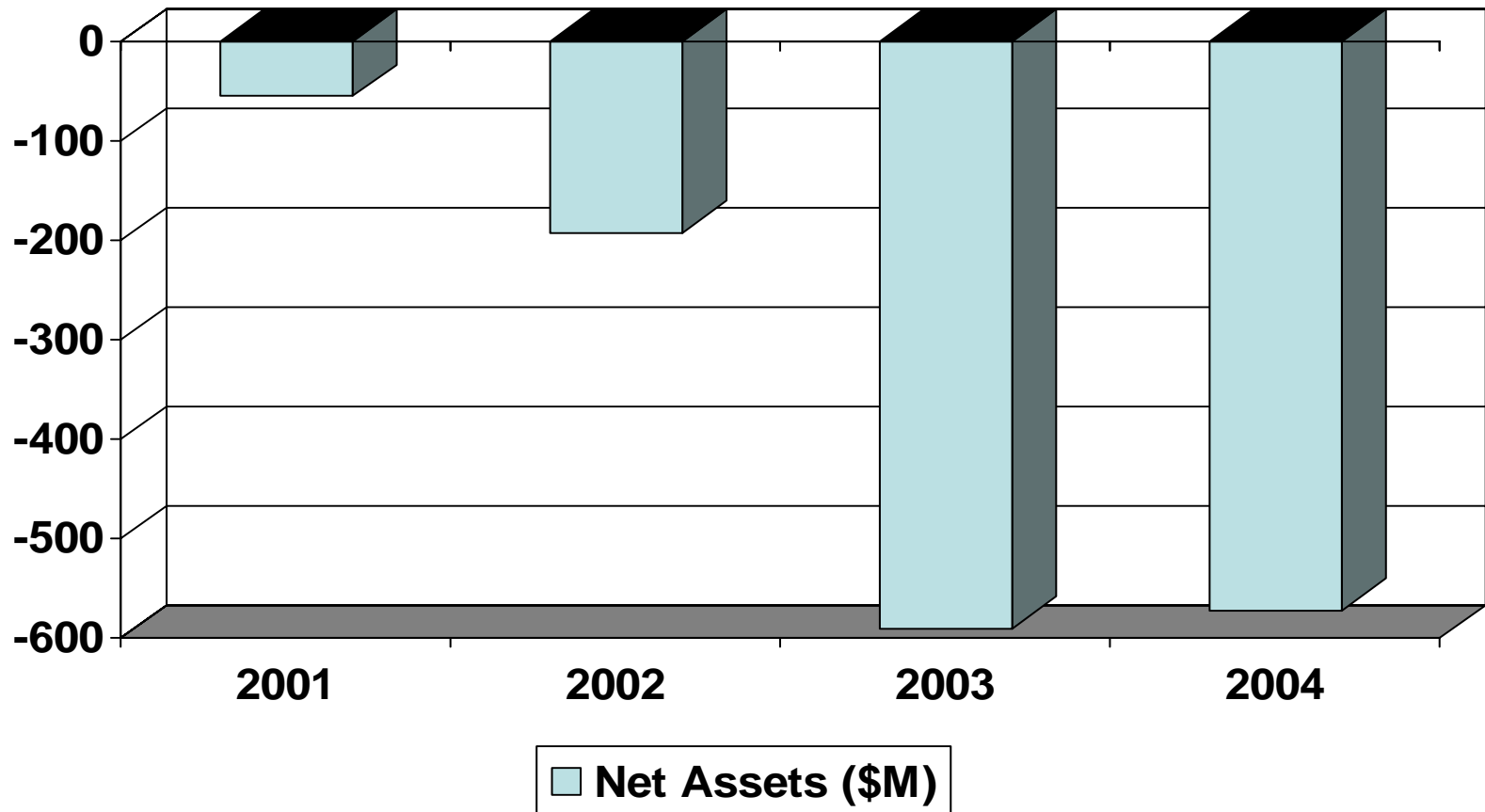


Victoria





South Australia





Role of Capital

- Accept long tail insurance is volatile
- Conservative assessment of outstanding claims liabilities
- Additional buffers to ensure claims will be paid as and when they fall due for payment
- Private sector insurers meet APRA MCR by 2.2 times



Investment of Funds

- Policyholder funds
- Shareholder funds
- Asset Risk
- Return on Capital



Public versus Private

- Public can lead to distortions
 - Adverse selection -- Moral hazard
 - Cross Subsidies -- Under-reserving
 - Cost Shifting
- Private promotes dynamic competition
- Conclusion