

28 November – 1 December 2004

Xth Accident Compensation Seminar

2004



Institute of Actuaries of Australia

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Governance, Prudential Regulation and Financial Policies “A Best Practice Guide”

Geoff Atkins



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Outline

- A best practice guide for state schemes:
 - Governance
 - Prudential regulation
 - Financial policies
- Useful for:
 - Ministers
 - Government departments
 - Directors
 - Senior management
- Personal views



Governance

- The rules, structures and processes by which:
 - Critical decisions are made
 - Strategy is set
 - Progress, performance and probity are monitored and controlled
- Legislation should define:
 - Objectives, functions and powers
 - Broad governance structure



Governance – the Board

- Appointed by the Minister
- Once appointed, acts independently
- 6 to 8 members, including the CEO
- No constituency representatives



Governance – Board Authority

- CEO should report to the Board
- Chairman should report to the Minister
- Board should act on published Directives
- Directives should be ‘normal course of business’
- Board charter and/or code of conduct
- Individual and collective performance review



Governance – Board Operations

- 8 to 12 meetings per year
- Less than 50% of time on financial & operations
- Board Committees:
 - Audit and Risk Management
 - Finance and Investment
 - Remuneration and Appointments
- No operational role with claims or appeals



Governance – Stakeholder Analysis

- Only two primary stakeholders:
 - Insureds (premium payers)
 - Injured persons, including future injuries
- Other participants and service providers:
 - Government
 - Claims agents
 - Lawyers
 - Medical providers
 - Rehabilitation providers



Dealing with Government

- Seems to be ignored in Governance statements
- Is influence of government “a bad thing”?
- Like it or not, it is part of daily life
- Government as shareholder and trustee
- Who determines policy and how?



Dealing with Government

- Any major scheme initiative or legislation requires support of Minister and Cabinet
- Minister should act on the recommendation of the Board
- Need a free flow of issues and ideas:
 - Operational matters from Scheme to Government
 - Political & constituency matters the other way
 - Regular, confidential dialogue with Minister, Chairman, CEO (and relevant advisers)



Dealing with Government

- Significant policy issues need to be with the Chairman
- Some direct interaction between Minister's office and scheme is part of normal business:
 - Response to Ministerial questions
 - Constituent correspondence
- Acknowledge government issues in:
 - Strategic planning
 - Business planning
 - Risk management



An example – Premium Taxes

- Motor vehicles have been an attractive target
- Examples:
 - HIH levy in workers comp in WA
 - Stamp duty on CTP in SA
 - NSW registration levy to fund old CTP scheme
- Stamp duty on compulsory classes should be Nil
- Legitimate to fund scheme losses or initiatives
- Transparent to premium payers
- Acknowledged in annual reports & premium comparisons



Prudential Regulation

- Private sector vs public sector
- Use APRA as a best practice model
- Adjust for items not relevant or different
- Achieves automatic updates



Prudential Regulation

<i>APRA Standards</i>	<i>Scheme Application</i>
Minimum Capital Requirements	Similar, but target not minimum
Liability Valuation (incl Approved Actuary)	Same (except perhaps for risk margin)
Risk Management Strategy	Same
Reinsurance Management Strategy	Similar, but simple



Who is the Prudential Regulator?

- Self regulation is not best practice
- Not obvious for a State Government:
 - Treasury & Finance
 - Auditor General
 - Special purpose regulator
 - General State regulator (IPART, GPOC)
- Suggestion is to use Treasury and outsource work to an audit firm
- Can't be APRA
- Clear, transparent and legislated

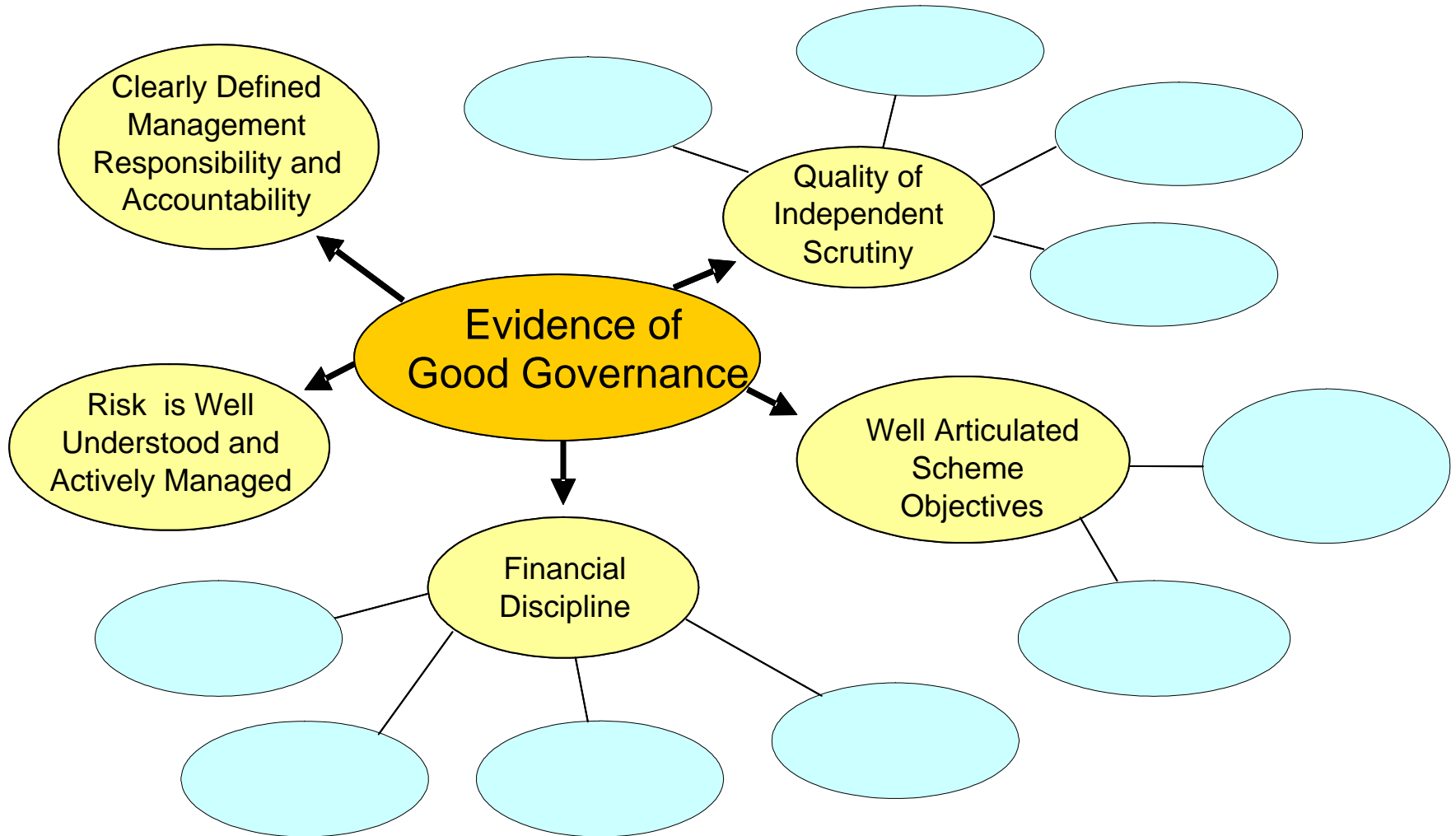


Financial Policies

- Scheme should have integrated financial policies, established by the Board, for:
 - Premium setting
 - Capital management
 - Dividends
 - Tax
 - Investment
- Integration and implications can be tested with Dynamic Financial Analysis

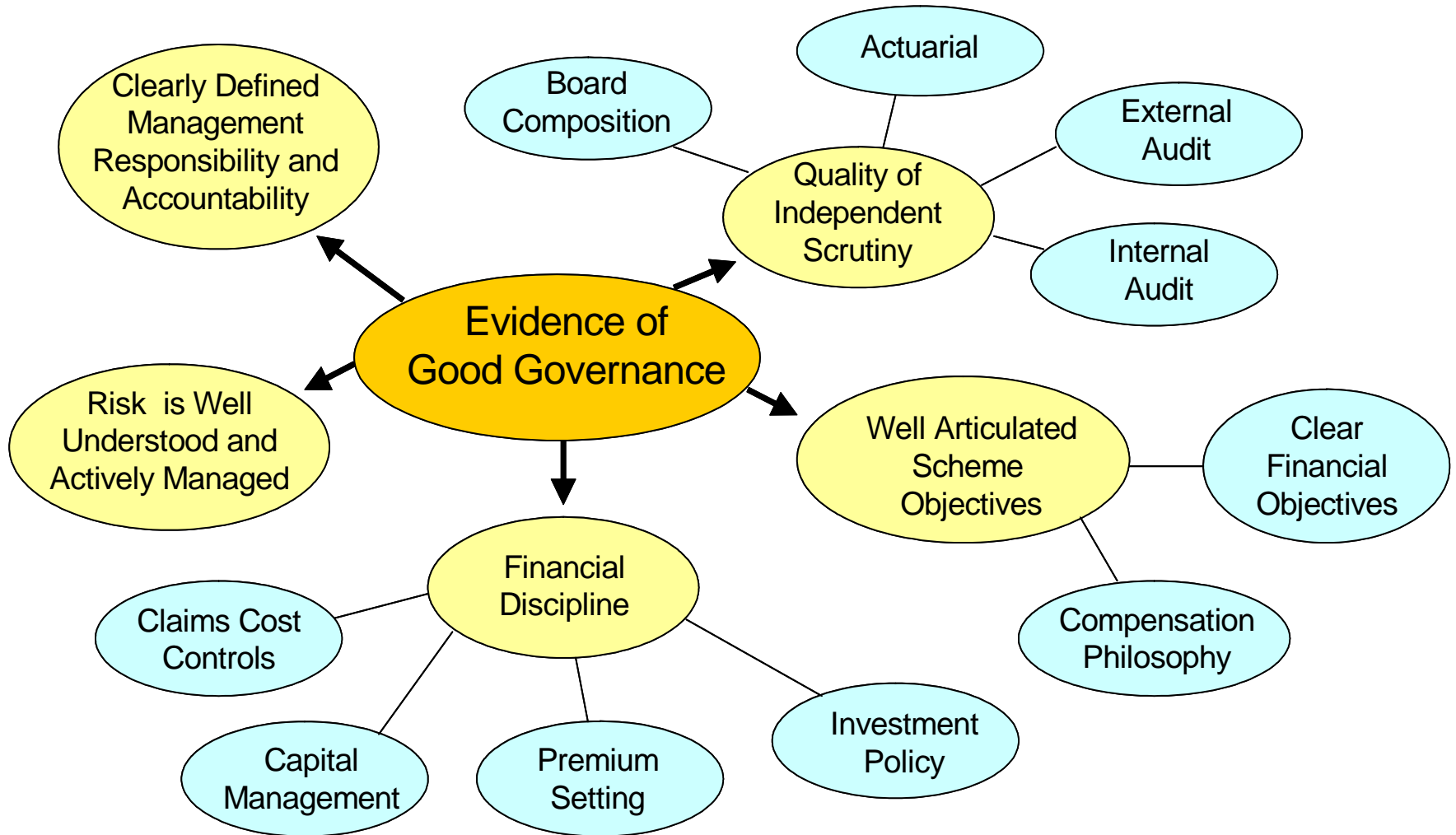


What Does it Look Like?





What Does it Look Like?





Random Comments from Annual Reports

- Health Warning – *what's in the Annual Report may not reflect real life!*
- NSW WorkCover – limited Board role
- Qld WorkCover – Board “*Considers itself responsible for maintaining a balance between the needs of employers and injured workers*”
- SA WorkCover – governance review in 03/04
- ICWA – appointed a Corporate Governance Committee in 02/03