



# Change • Challenge • Opportunity

Injury & Disability Schemes Seminar

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## *How to make Workers Compensation Fit for Growth?*

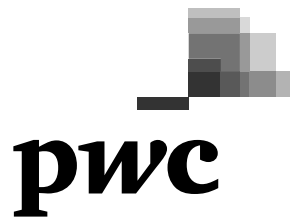
12 - 14 November 2017 • Sofitel • Brisbane



## *A quick intro*

**strategy&**

*Strategy& is the global  
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within the PwC network*



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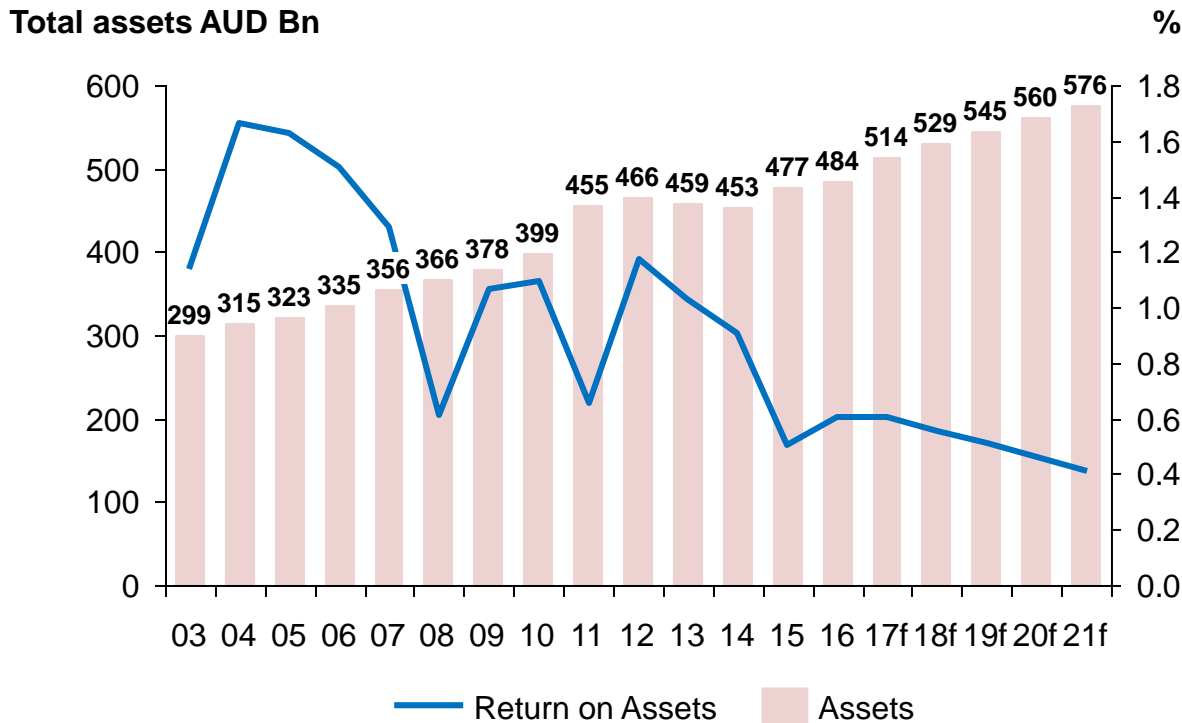
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## *Key messages: Why Workers Compensation insurers need to become Fit for Growth*

- **The Australian Workers Compensation insurance market is undergoing significant change** from shifting demographics, changing nature of employment, rising cost of insurance and care, and increasing customer expectations
- Whilst WC regulations at the highest level are similar across Australia, there are **significant differences in guidelines, practices, and metrics that add unnecessary complexity** for insurers, customers, and claimants
- At the same time, **profit margins for insurers are under pressure** as underwriting and admin costs are spiralling, outpacing the market average
- Rising costs and quantum of change drive **increasing complex strategic priorities** for both insurers and scheme owners – they need to tackle increasing expense ratios, respond to market needs, and keep customer happy at the same time
- To deliver to these priorities, insurers need to take a **different, holistic, sustainable approach** – they need to become **Fit for Growth**

# Australian general insurers have a growth and cost problem

AU GI Industry Total Assets vs ROA \$b AUD, %



**CAGR**  
(03-16)

**-5%**

**+4%**

## Key Themes

- Cost pressure impacting ROA
- Near zero-growth market outlook; saturated markets
- Increasing volatility and geopolitical risk
- Rise of new market entrants, InsurTech
- Industry 4.0 – from liability and litigation to claims prevention
- Shift from stable, cyclical high volume risk to complex long-tail risks
- Disruption in all parts of the value chain

Forecast based on linear regression; Source: APRA; Strategy& analysis

# *In WC, cost pressure driven by: shifting demographics, different work, rising costs, higher expectations...*

## Drivers of change

## Implications for WC

**1** **Shifting demographics**

- People live longer and work beyond age 65 to fund retirement – different risk
- More females in the workforce
- Rising youth unemployment, increasing stress

- Different risk to be written, taking into account older people and more
- Likely more stress related claims

**2** **Changing nature of employment**

- Shift to ‘gig economy’, temp labour
- Less work in energy / mining, increasing construction and services
- Rise of robotics putting pressure on manual labour (and different injury types)

- Potential to take new products to market, e.g. SME segment
- Opportunity / risk from un/under-insured
- Refocus workplace injuries from hazardous to mental health

**3** **Rising cost of insurance & care**

- Government budgets under scrutiny; focus on scale
- Pressure from ageing population and lifestyle diseases
- Need for personalised care to treat complex diseases

- Need to review and streamline health provider procurement
- Need to adopt outcomes based care practices, collaborating with government and industry

**4** **Changing customer expectations**

- Rise of digital channels, omni-channels
- Customers expect the same from their insurer as they do from retailers
- Threat from non-insurers entering market share, e.g. Amazon

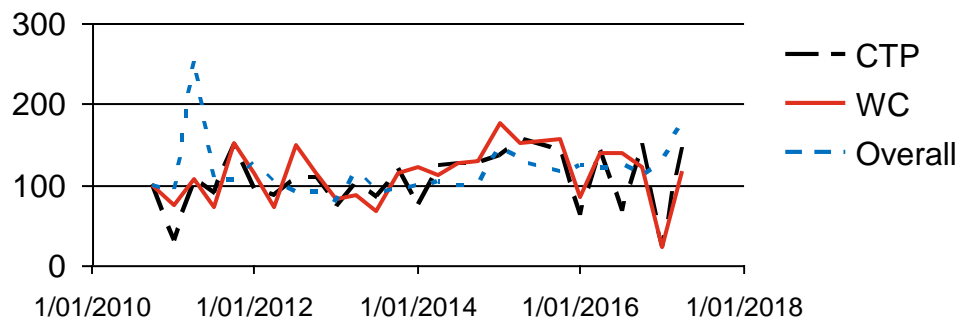
- Need to understand top needs of key customer segments and how digital channels can realise them
- Drive digital interactions across distribution and claims

Source: Australian Government, the Treasury: 2015 Intergenerational Report; 2015; ABS; StarTrack / Auspost; Australian Institute of Health and Welfare, ONS; PIAAC; PwC UK; Bartlett, C, Butler, S. and Haines, L.(2016), Reimagining health reform in Australia: Taking a systems approach to health and wellness; Strategy& analysis

# ... resulting in increasing claims costs and underwriting UW expenses, driving the need for a structured approach

**WC: Gross incurred claims by product category**

Index (Sep 2010 = 100)



**CAGR**

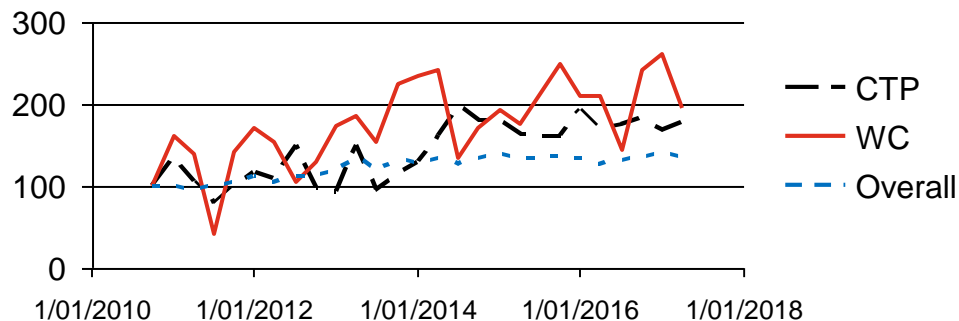
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 +9%

## Key Messages

- Claims costs have increased steadily (although at slower rate than overall market) with some volatility
- Underscores need for WC to better manage volatility and focus on outcomes, e.g. greater prevention focus, early intervention

**WC: Acquisition and underwriting expenses by product category**

Index (Sep 2010 = 100)



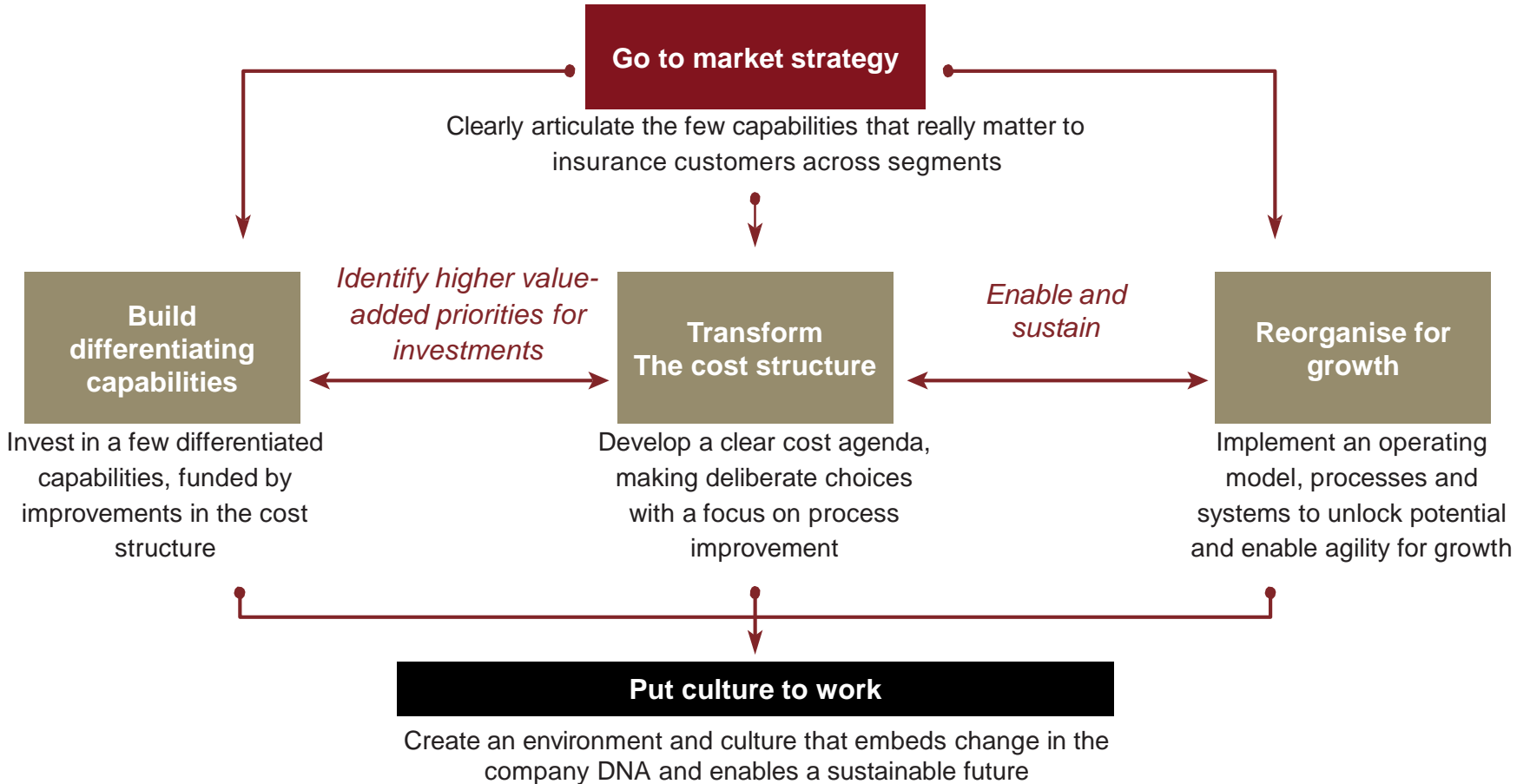
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 +5%

- Acquisition and UW costs doubled market average likely due to increasing complexity, salary pressure
- Emphases needed for WC insurers to drive efficiency and scale in sales, underwriting and operations

CAGR = Compound Annual Growth Rate; Source: APRA, Strategy& analysis

# Fit for Growth enables insurers to cut costs and grow stronger by investing in differentiated capabilities

## Fit for Growth Framework



Source: Strategy& intellectual capital

# What good looks like: improved RTW ratio, 20-30% CHE reduction, 30-40% UW and pricing expense reduction

	Strategy & Customer	Pricing & Underwriting	Distribution	Claims - Lodgement & Triage	Claims – Handling & RTW
<b>What good looks like</b>	<ul style="list-style-type: none"> <li>Customer segmentation model applied to WC customer base</li> <li>Clearly articulated value proposition for each segment (and channel)</li> <li>End to end customer journey per segment designed, aligned to channels</li> <li>Single customer view across products, claims, and channels</li> <li>Strategic partnerships with government &amp; industry to drive injury campaigns</li> </ul>	<ul style="list-style-type: none"> <li>Dynamic, real-time pricing linked to segmentation model</li> <li>Single pricing and rating engine, no manual pricing</li> <li>Automated underwriting for 80% of policy volumes</li> <li>Automated quote and bind</li> <li>Automated 1<sup>st</sup> line risk review</li> <li>Digital forms, e.g. certificate / PDS automation</li> </ul>	<ul style="list-style-type: none"> <li>Straight through processing of new business and renewals</li> <li>Multi-channel distribution approach</li> <li>Direct digital experience</li> <li>Commission structure tied to quality of book, RTW outcomes</li> <li>Pro-active outbound injury prevention campaign</li> <li>Self-service access to policy, cover, and claims history (customers and brokers)</li> </ul>	<ul style="list-style-type: none"> <li>Automated risk based triage model</li> <li>Single lodgement and coding team</li> <li>One touch claims finalisation</li> <li>Digital and phone based lodgement</li> <li>Pro-active injury mgmt. on first notification of loss; steer to own provider network</li> <li>Provider integration to book first injury assessment</li> <li>Straight through processing with evidence based medicine screening</li> </ul>	<ul style="list-style-type: none"> <li>Digital payments (EFT, BPAY)</li> <li>Single provider panel with consistent payment terms</li> <li>Single view of provider spend, proactive leakage analytics</li> <li>Single investigations and recoveries team</li> <li>Single legal / litigations team to share expertise across jurisdictions</li> <li>Provider integration to automate bookings and billing</li> <li>Automated regulatory reporting</li> <li>Outcomes based treatment</li> </ul>

Source: Strategy& analysis based on Strategy& / PwC experience in workers compensation and related industries; Strategy& FFG insurance benchmarks



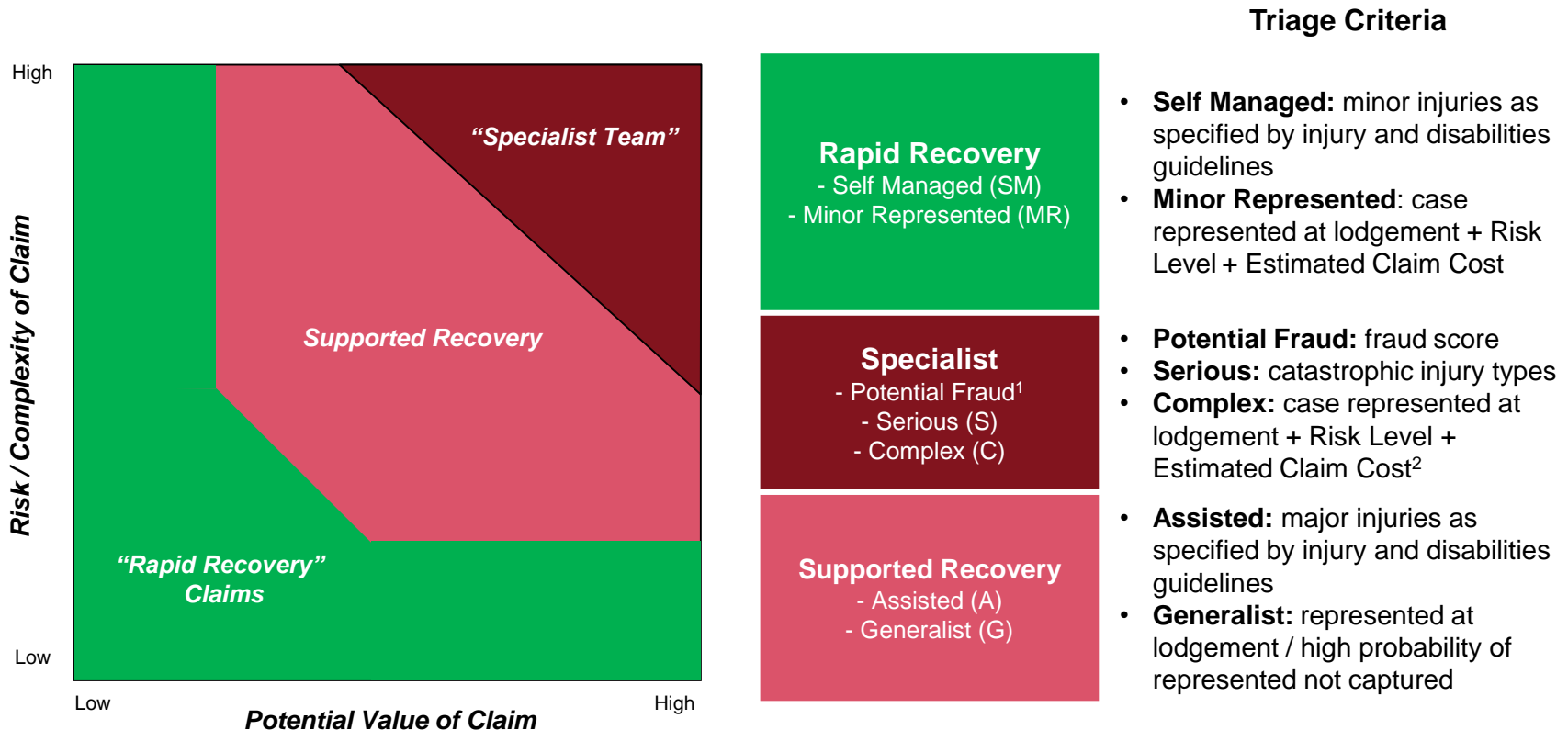
# Key differentiating capabilities for WC insurers

	People	Process	Technology
Customer, Product & Underwriting	<ul style="list-style-type: none"> <li>Structures, decision right and incentives to drive differentiated / segment specific pricing and P&amp;Ls</li> </ul>	<ul style="list-style-type: none"> <li>Underwriting, rating, and commercial pricing aligned to different and varying WC needs</li> <li><b>Modular product model to tailor WC cover and wording to different segments</b></li> <li>Automated segmentation of customer</li> </ul>	<ul style="list-style-type: none"> <li>Centralised, dynamic rating to enable differentiated pricing</li> <li><b>Ingesting different data sets in real-time to price better</b></li> </ul>
Distribution	<ul style="list-style-type: none"> <li>Automated commercial pricing guard rails to avoid over discounting</li> <li><b>Commissions aligned to both revenue and quality of book</b></li> </ul>	<ul style="list-style-type: none"> <li>Enforcement of commercial pricing guard rails</li> <li>Streamlining of key distribution processes (outbound, renewals, PDSes) to automate</li> </ul>	<ul style="list-style-type: none"> <li>Single front-end to enable digital quote/bind and renewals</li> </ul>
Claims – Lodgement & Triage	<ul style="list-style-type: none"> <li><b>Train lodgement staff with basic medical knowledge to steer claimant to preferred providers</b></li> <li>Greater use of IMAs and legal experts</li> <li>Single team to manage fast-track claims across states and classes</li> </ul>	<ul style="list-style-type: none"> <li><b>Single claims model based on cost and complexity, with automatic streaming to best case team</b></li> <li>Single lodgement process across classes and jurisdictions to drive scale (with minimal exceptions)</li> <li>Influencing regulators to allow for digital lodgement,</li> <li><b>Common workflow for fast track claims to support single team</b></li> </ul>	<ul style="list-style-type: none"> <li>Straight through processing (STP) workflow</li> <li><b>Automated triage upon FNOL</b></li> <li>Integration of evidence based guidelines to assess risk / cost of new claims and automatically assign</li> </ul>
Claims – Handling & RTW	<ul style="list-style-type: none"> <li>Central regulatory / legal team for concentration of skills and expertise</li> </ul>	<ul style="list-style-type: none"> <li>Shared screens between lodgement teams and case managers to minimise hand-offs</li> <li>Supervisory ability to review and audit claims, e.g. based on key milestones / KPIs</li> <li>All case data in single system / process to eliminate paperwork and doublehandling</li> </ul>	<ul style="list-style-type: none"> <li>Dashboards to monitor case management performance (caseload, frequency, avg. reserving, regulatory KPIs)</li> <li><b>Integration with provider systems, HICAPS</b></li> </ul>
Claims – Resolution	<ul style="list-style-type: none"> <li>One team of legal and regulatory specialists that manage technical aspects of settlement</li> <li>Central panel management function to leverage scale and drive provider performance</li> </ul>	<ul style="list-style-type: none"> <li>Harmonised settlement process to the extent that regulation allows</li> <li><b>Preferred provider panel to drive better unit rates and reduce leakage</b></li> </ul>	<ul style="list-style-type: none"> <li><b>Supplier system integration, e.g. for contract management, document management</b></li> </ul>

Source: Strategy& analysis

# Improved RTW and lower CHE requires an automated risk-based claims triage model

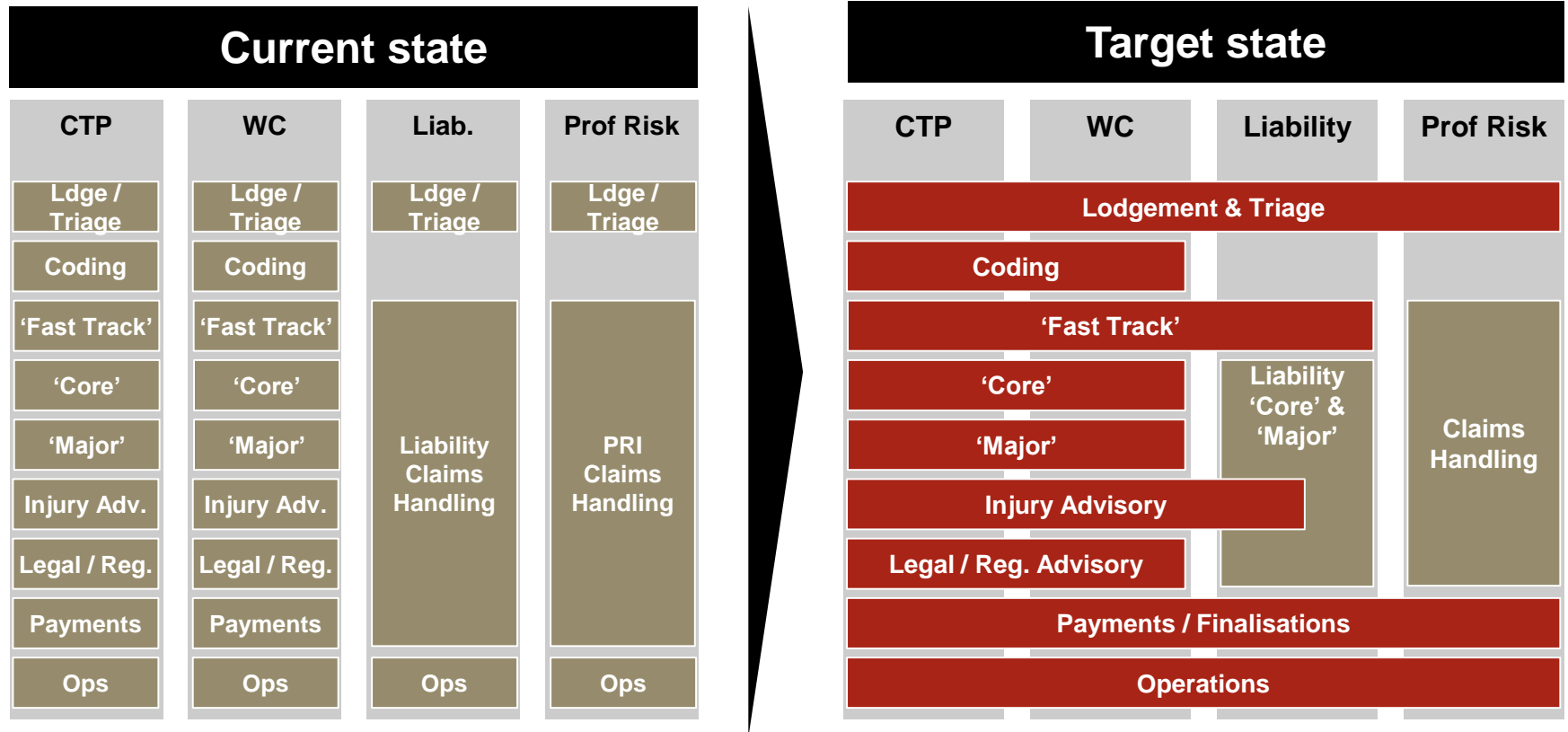
## Example: WC claims triage model



Source: Strategy& analysis

*Efficiency and effectiveness needs insurers to break down the 'product silos' and leverage cross-class scale and expertise*

Claims Operating Model



Class of claim
  Bespoke / class-specific activities
  Common activities

Source: Strategy& analysis

# Putting culture to work – addressing ingrained culture in WC through targeted interventions

## Typical cultural challenges in Workers Compensation



- Adequate focus on the customer and claimant experience
- E.g. speaking to the policy instead of the customer / claimant



- Historical or personal ties with brokers, legal, and health provider impacting commercial or RTW outcomes



- Progression to work on complex (legal, technical, medical) claims seen as the main pathway
- Impacts ability to maintain a skilled workforce across different types of claims



- Instituting the right behaviours that enable claims model redesign and benefits, e.g.
  - avoiding unnecessary emphasis on claims technicalities over RTW outcomes
  - focusing attention to high risk/high cost claims (and not just those with high cost)

## Key interventions to address them



**Culture strategy to institute focus on customer / claimant experience**

**Rewards tied to outcomes whilst balancing expenses**



**Incentives to reward commercial acumen**

**Ongoing analytics to detect over servicing / leakage**

**'Pride builders' to improve RTW**



**Co-design career model as part of transformation**

**Rethink career paths, e.g. people / leadership opportunities**



**Scorecard cascading through teams linked to claims triage outcomes**

**Commercial / RTW education and awareness campaigns**

Source: Strategy& analysis

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*Thank you*

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*Appendix*

## Key scheme differences between select Risk states

Area		WA	TAS	ACT	NT
Legal / regulatory	<b>Insurance model</b>	Commercial, regulated by WorkCover WA	Commercial, regulated by WorkSafe	Commercial, regulated by WorkSafe ACT	Commercial, regulated by WorkSafe NT
	<b>Cross-border operations</b>	Silent on location	Silent on location Insurers required to commit resources to further objective of rehabilitating injured workers	Regulatory requirement to maintain physical presence	Guidelines require complex claims to be managed in state
	<b>Common law avenue</b>	Yes	Yes	Yes	No
Claims lodgement	<b>Submission</b>	2 forms – employer report & form 2b Medical certificate	1 form Medical certificate		
	<b>Format</b>	Paper (signed by injured worker) – via mail Carbon copy of forms sent to WorkCover by insurer	Paper (physically signed by injured worker) – via mail, fax, email (scanned copy)		
Claims assessment	<b>TOOCS for injury coding</b>	Yes	Yes	Yes	No
	<b>ANZIC</b>	Yes	Yes	Yes	Yes
	<b>NDIS</b>	No	Yes	Yes	Yes
Key KPIs	<b>Worker notifies employer</b>	As soon as practical, within 12 months	As soon as practical	As soon as practical, within 12 months	As soon as practical
	<b>Employer notifies insurer</b>	Within 5 days	Within 3 working days after injury	Within 48 hours (claim form passed to insurer within 7 days)	Within 3 working days
	<b>Claim decision</b>	Within 14 days	84 days if not disputed via tribunal	Within 28 days	Deemed accepted within 10 working days of decision not made
	<b>Claims form passed to authority</b>	21 days after payments commence	Payments not admission of liability	No specified timeframe	10 working days

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