

# Injury Schemes Seminar

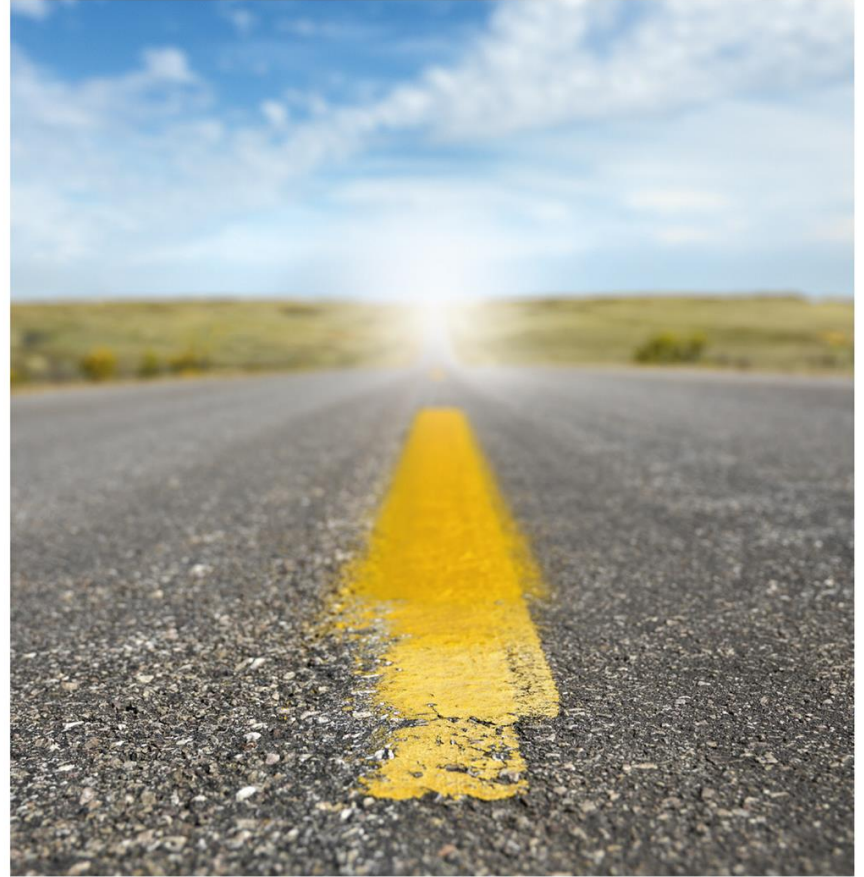
**Road to Recovery**



**Actuaries  
Institute**

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8-10 November 2015 • Hilton • Adelaide





# Principles of Design

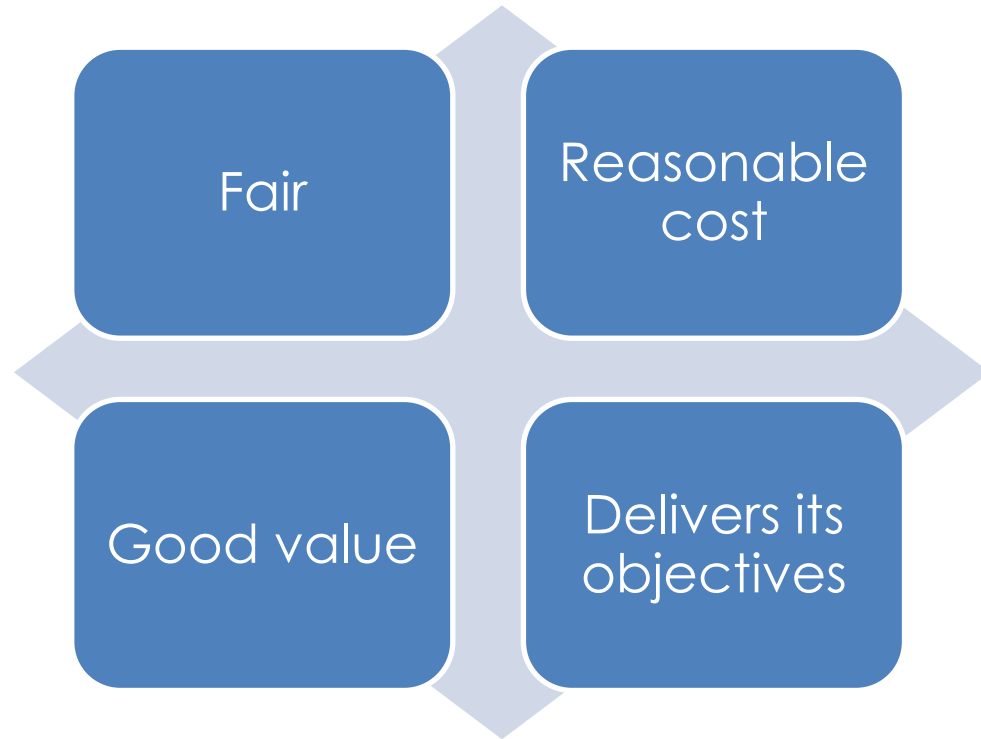
## Pricing for a Sustainable Scheme

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*This presentation has been prepared for the Actuaries Institute 2015  
Injury Schemes Seminar.*

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responsible for those opinions.*

## What is a “sustainable scheme”?



## A “fair” alignment

**Employers** want

- Low premiums
- Productivity

**Injured Employees** want

- Entitlements
- Fair treatment
- Good work



## Role of the pricing mechanism

Pricing / Premium



Drive the right behaviours to influence alignment

- Encourage good practice
- Discourage “gaming”



Achieve sustainability

## Technical soundness

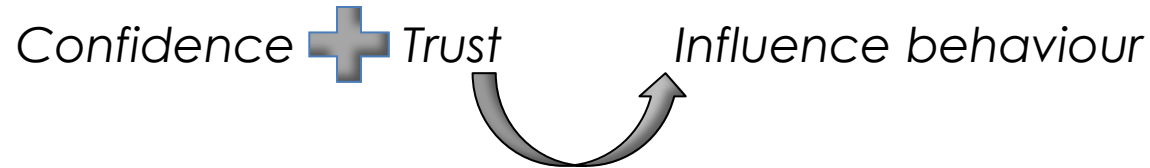
Technical soundness is a necessity, eg:

- Integrated policy of premium setting, capital management, investment and dividends
- Total premium pool to achieve scheme financial sustainability targets
- Credible claims data for experience-based elements
- Rigour in administrative details

But...

## Confidence and Trust

Perception matters more than technical purity



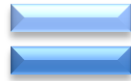
So:

- Don't over complicate your premium model
- Be transparent in communications

## Perception matters

- A bad model:

Employer's  
Premium



Employer's  
Claim Cost



*Scheme Premium*  

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*Scheme Claim Cost*



## Perception matters

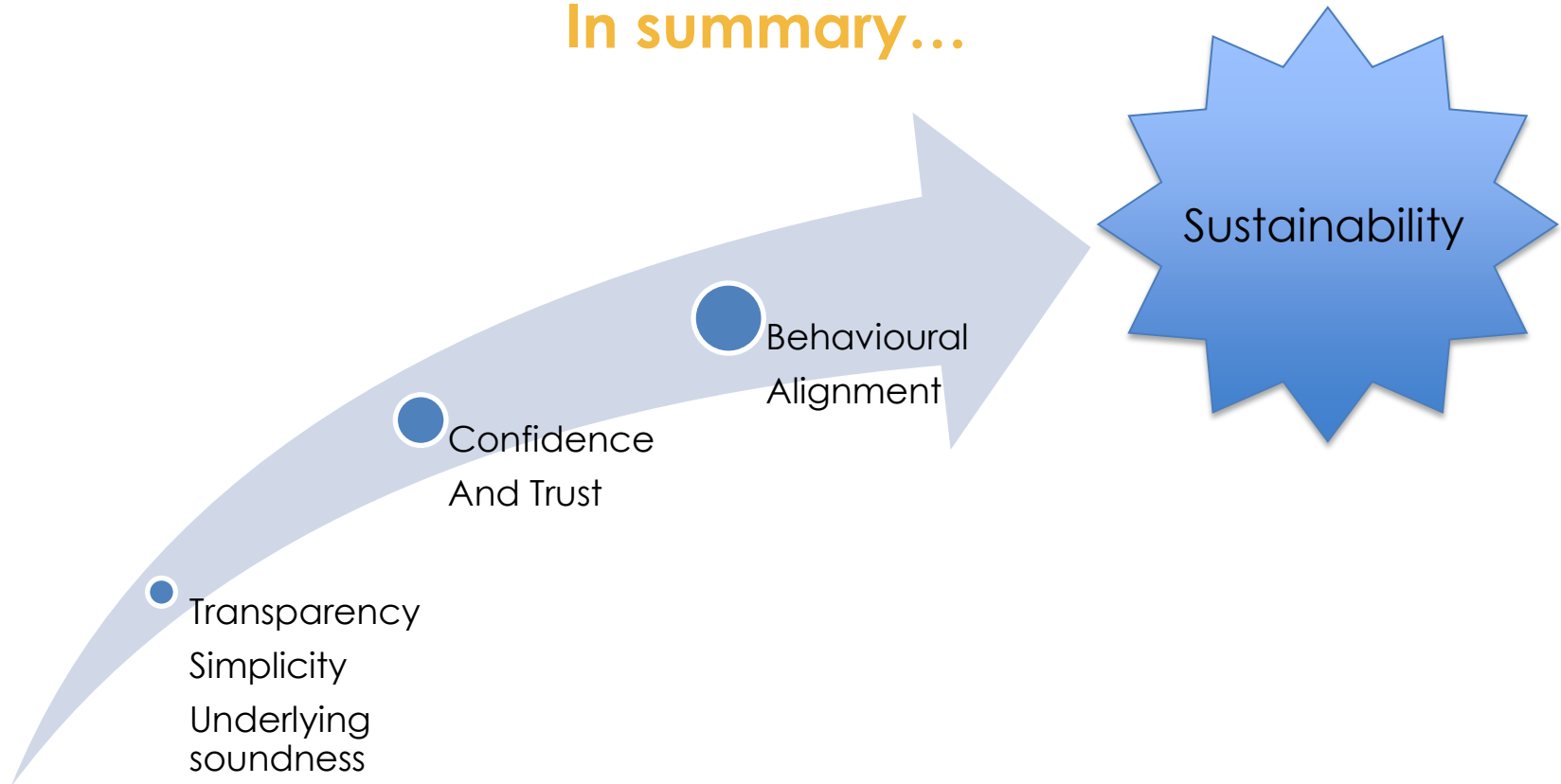
- A bad model:

$$\text{Employer's Premium} = \text{Employer's Claim Cost} \times \frac{\text{Scheme Premium}}{\text{Scheme Claim Cost}}$$

- A great model:

$$\text{Employer's Premium} = \frac{\text{Employer's Claim Cost}}{\text{Scheme Claim Cost}} \times \text{Scheme Premium}$$

## In summary...



## References

Some further reading in papers from previous Injury Schemes Seminars:

- Geoff Atkins (2004): *Governance, Prudential Regulation and Financial Policies: "A Best Practice Guide"*
- Len Boehm (2011): *Never Entirely Outsource Your Brain*
- Steve Curley et al (2011): *Scheme Governance and Financial Management*
- Peter Hardy et al (2011): *The Role of Incentive Measures in Workers' Compensation Schemes*
- Kevin Purse (2011): *Moral Hazard and Workers' Compensation: Time for a Rethink?*
- Rob Thomson (2009): *Premium Reform in NSW: Past, Present and Future*