

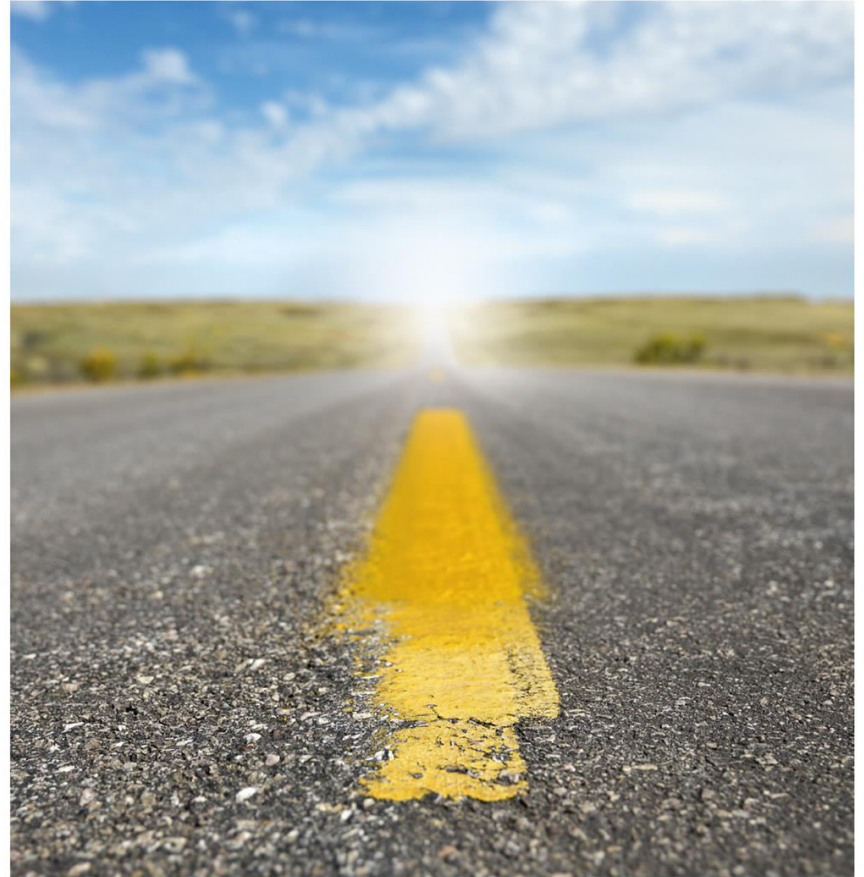
Injury Schemes Seminar

Road to Recovery



**Actuaries
Institute**

8-10 November 2015 • Hilton • Adelaide





Scheme Agent incentive theory (an introduction)

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

*The Institute Council wishes it to be understood that opinions put forward
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“This redistribution of wealth is much harder than I first imagined”





“The purpose of any incentive system is to change the behaviour of the agent, in a way that improves the social & financial performance of the scheme”



Remuneration a key piece of the puzzle but

**CLAIMS
STRATEGIES**

**INDUSTRY
CAPABILITY**

**AGENT
INCENTIVES**

**AGENT
REMUNERATION**

**AGENT
ENGAGEMENT**

**PERFORMANCE
COMPETITION**

**PERFORMANCE
MONITORING**

**RELATIONSHIP
MANAGEMENT**

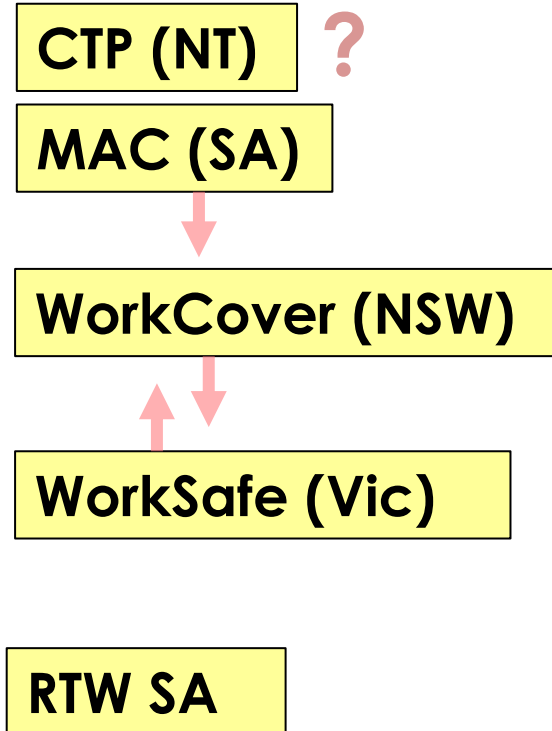
**PERFORMANCE
MANAGEMENT**

CONTRACT TERMS



Where agent models are heading ?

1. Basic incentive only models
2. Enhanced incentive model +
3. The semi franchise model
4. The franchise model





Some interesting principles

Incentive effect is \$ times faith

Set and forget is dead – the need for systems to evolve

Sometimes the wrong measure is the right measure



Some interesting principles

I'm gamed – unexpected behavioural change

Beware the black box

Why not just pay them for what you want them to do ?



Strengths & Weaknesses

LIABILITY SHARE

Shares results, good for investment if belief, **balanced**
Relevancy at coal face ?, **weak cause & effect**,
excludes social goals

TARGETED OUTCOMES

Flexible, some link with valuation, **better**
cause/effect, **social objectives**
Complex, balance risk, **sophisticated monitoring**

AUDITS (S)

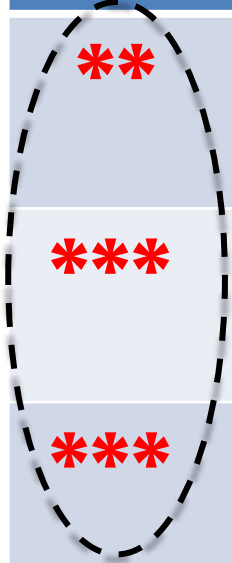
Too process focused, **weak actuarial link**, **subjective**

AUDITS (Q)

Useful to drive implementation of targeted strategies



	WorkSafe (Vic) Turnaround	WorkSafe (Vic) Maintain	RTW SA Turnaround
TARGETED OUTCOMES	***	*****	*****
LIABILITY SHARE	****	<div style="border: 1px solid black; background-color: #f4a460; padding: 10px; display: inline-block;"> Broad but flexible design as uncertain where the levers were </div>	
AUDITS	****		



* = behavioural weighting (not \$ maximums)



	WorkSafe (Vic) Turnaround	WorkSafe (Vic) Maintain	RTW SA Turnaround
TARGETED OUTCOMES	***	****	****
LIABILITY SHARE	****	**	↑
AUDITS	***	<div style="border: 2px solid orange; padding: 10px; display: inline-block;"> Targeted scheme wide strategies initially moved scheme trends </div>	

* = behavioural weighting (not \$ maximums)

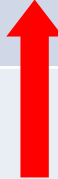
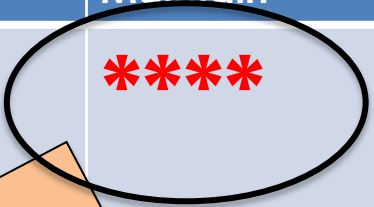
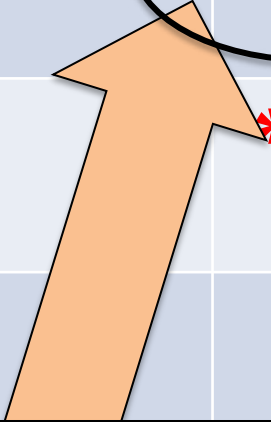


	WorkSafe (Vic) Turnaround	WorkSafe (Vic) Maintain	RTW SA Turnaround
TARGETED OUTCOMES	***	*****	*****
LIABILITY SHARE	****	<div style="border: 2px solid orange; padding: 10px; display: inline-block; text-align: center;"> Then improving actuarial results gave agents confidence & reason to invest </div>	
AUDITS	****		

* = behavioural weighting (not \$ maximums)



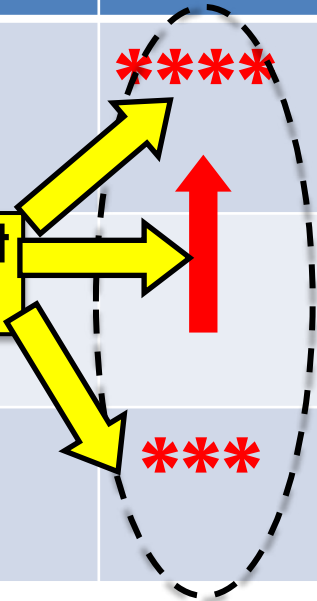
	WorkSafe (Vic) Turnaround	WorkSafe (Vic) Maintain	RTW SA Turnaround
TARGETED OUTCOMES	**	****	****
LIABILITY SHARE	****	**	
AUDITS	****	*	***



Overtime targeted outcomes (RTW, Service, continuance rates etc) became more important



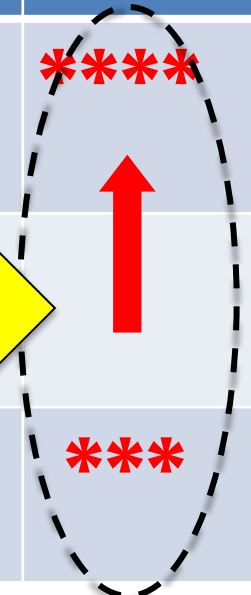
	WorkSafe (Vic) Turnaround	WorkSafe (Vic) Maintain	RTW SA Turnaround
TARGETED OUTCOMES	**	****	*****
LIABILITY SHARE	<div style="background-color: yellow; border: 2px solid black; padding: 5px; display: inline-block;"> Cut to the chase focused on what they needed the agents to do </div>		
AUDITS	****	*	****



* = behavioural weighting (not \$ maximums)



	WorkSafe (Vic) Turnaround	WorkSafe (Vic) Maintain	RTW SA Turnaround
TARGETED OUTCOMES	**	****	*****
LIABILITY SHARE	<p>Targeted liability share (tail only)</p>		
AUDITS			****



* = behavioural weighting (not \$ maximums)



	WorkSafe (Vic) Turnaround	WorkSafe (Vic) Maintain	RTW SA Turnaround
TARGETED OUTCOMES	**	****	*****
LIABILITY SHARE	<div style="border: 2px solid black; background-color: yellow; padding: 5px; display: inline-block;"> Audits & outcomes targeted more to support key strategies </div>		
AUDITS	****	*	****

* = behavioural weighting (not \$ maximums)



**“Best practice is what
you can make work”**

CAPABILITY OF THE OUTSOURCER

**YOU CAN'T MANAGE WHAT
YOU CAN'T MEASURE**

CAPABILITY OF THE AGENTS ?

**WHAT ARE YOU TRYING TO
ACHIEVE ?**

HOW QUICKLY ?

**HOW MUCH ARE YOU
PREPARED TO PAY ?**

WHAT CAN YOU NEGOTIATE ?

There are principles you can apply
There is emerging better practice
You can learn from others



**“But in the end the answer
contingent it always is”**