

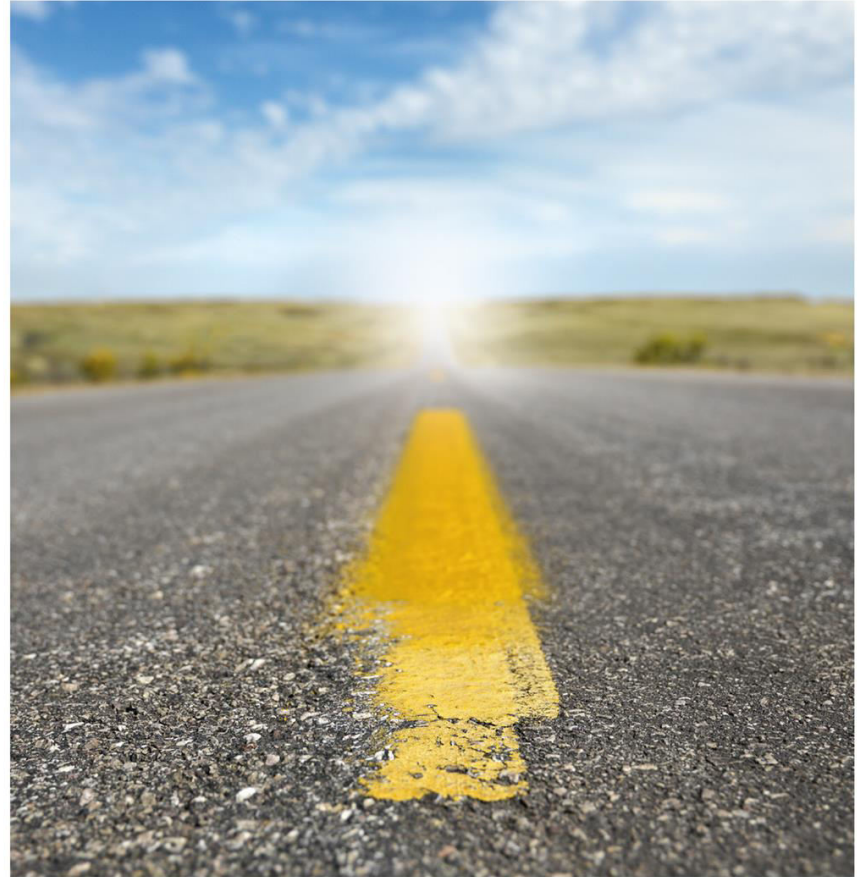
Injury Schemes Seminar

Road to Recovery



**Actuaries
Institute**

8-10 November 2015 • Hilton • Adelaide





Plenary 2 – Principles of design

Competitive vs monopoly underwriting The challenges

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Injury Schemes Seminar.*

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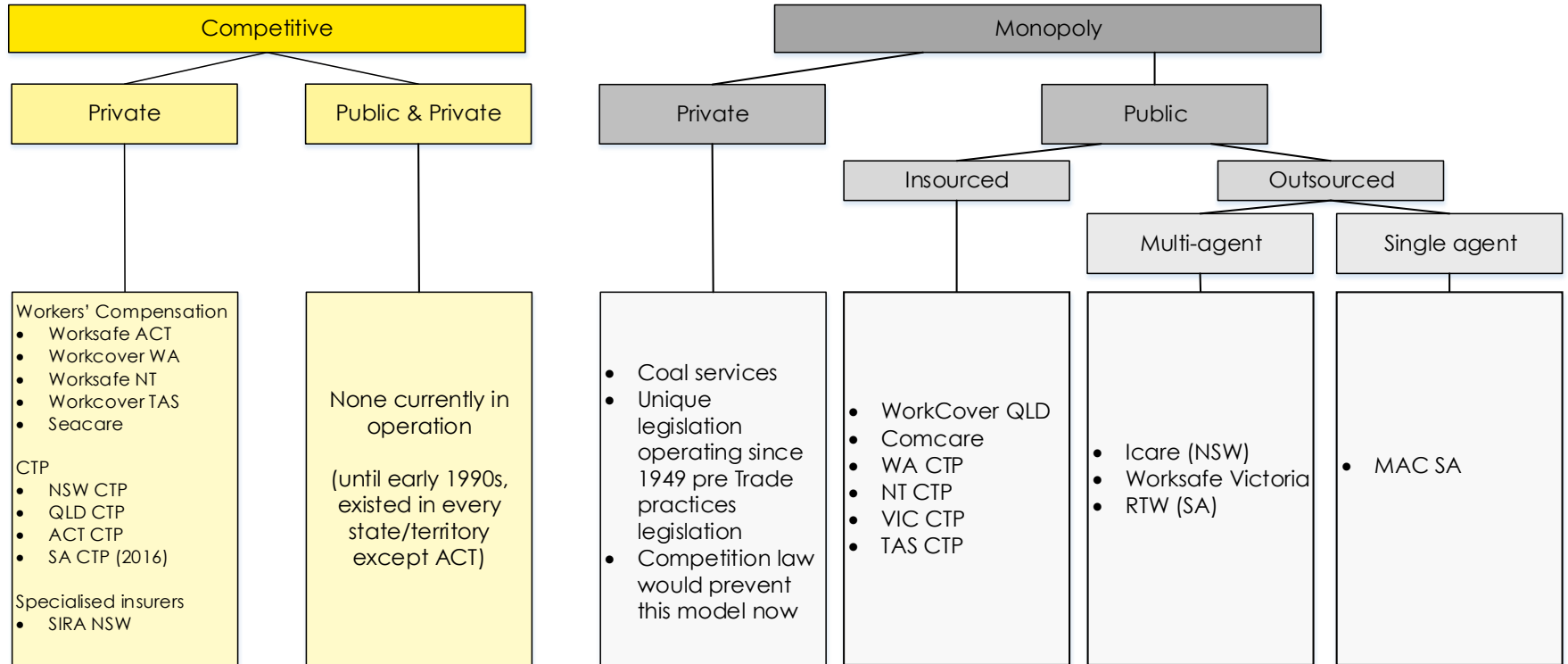
Introduction

1. My proposition about underwriting model design
2. Different models
3. Key design challenges
4. Some other challenges

1. My proposition about underwriting model design

- Each model can work relatively well and they can equally fail
 - Success depends how each scheme is managed and regulated
 - But how sustainable is each model over the long term?
- The key function is **CLAIMS MANAGEMENT**
 - In my view the quality of claims management has the biggest impact on overall scheme success irrespective of underwriting model
- Other functions - underwriting/pricing and investment management

2. Different models



All workers' compensation schemes allow large employers to self-insure

3. Key design challenges- monopoly model

Challenge	Comments
Claims management	<ul style="list-style-type: none"> • Are monopolies too insular? – need to expose their claims management to scrutiny to convince stakeholders of low claims leakage
Lack of government understanding to effectively manage	<ul style="list-style-type: none"> • Does this result in questionable long term sustainability of monopolies? • Accountability is a frequent deficiency – rests with government entity
Outsourced (hybrid) option is hard to get right	<ul style="list-style-type: none"> • Is it harder than insourcing? • Government entity needs very good technical claims staff • Requires strategic approach & pro-active intrusive management of providers
No structural circuit breaker to address poor management	<ul style="list-style-type: none"> • Results in questionable long term sustainability of monopolies
Prudential model or management by government	<ul style="list-style-type: none"> • Governments leave it to the monopoly to prudentially manage the scheme • Governments need a better prudential approach to manage the financial risk in schemes (e.g. adequacy of claims management, balance sheet risks)
High expenses (diseconomies of scale?)	<ul style="list-style-type: none"> • Whether outsourced /insourced or managed well or not (see next slide)

3. Key design challenges- monopoly model

Claims handling expenses (CHE) – workers compensation

Scheme	CHE % of Outstanding claims liabilities
Monopolies	
1 - insourced	15
2 - outsourced	12
3 - outsourced	10
4 – insourced	10
5 - outsourced	9
6 – insourced	8
Competitive markets	
Small multi-product insurer	6
WA	5
Large insurer 1 and 2	5

- Sources:
 - CHE available from accounting disclosures in annual reports of monopolies
 - WA, Tasmanian & ACT scheme from scheme actuary reports
 - Insurer's CHE from EY information
- **Just because monopolies have higher expenses by itself does not mean they are less efficient**
 - **Claims leakage is a much bigger issue**
 - **Profit margins of insurers need to be considered**

3. Key design challenges - competitive model

Challenge	Comments
Evidence model improves financial outcomes, health outcomes through claims management	<ul style="list-style-type: none"> • Where is the evidence? • Key basis of competitive argument is competitive model result in lower premiums (with 80% of the premium relating to claims costs!) and better claims outcomes
Regulation required to address concerns of stakeholders and achieve scheme objectives	<ul style="list-style-type: none"> • Are stakeholders concerns valid? • Requires a strong risk based and proactive regulator that works with stakeholders and service providers to address systemic and operational issues
Insurers need to review their business model that favours lump sums over annuity benefits	<ul style="list-style-type: none"> • With the long term trend away from lump sums the sustainability of competitive model is questionable unless annuity style benefits are accepted by insurers
APRA prudential model reduces risk of failure	<ul style="list-style-type: none"> • APRA is a much better regulator but insurers need to convince governments the chances of an insurer failure is very remote

4. Some other challenges

Challenge	Comments
The key challenge is to employ <u>the right people</u> in the monopoly model (also applies to the competitive model)	<ul style="list-style-type: none"> • Need to employ (especially at CEO and next level down) good quality staff who have extensive and successful experience managing personal injury claims in workers compensation or CTP • The schemes that have not taken this route have performed poorly over many years
Depoliticise schemes	<ul style="list-style-type: none"> • Stop schemes being used as a political football
Competitive CTP schemes have a significant challenge dealing with substantial cross- subsidies	<ul style="list-style-type: none"> • Significantly reduces competition and may reduce long term sustainability • The solution?