



Institute of Actuaries of Australia

New Zealand Accident Compensation: What's Happening?

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Introduction

"Over the last three years we had a policy commitment to explore competition in the Work Account. We've done that hard work, we've made a decision, we're going to proceed.

"If we're privileged to be in government over the next three years we would get that up and running in the Work account and would do further work on what choice could be provided in the earners' and motor vehicle accounts."

Dr Nick Smith, Minister for ACC
From *The New Zealand Herald*, 13 October 2011

The Accident Compensation Corporation (ACC) is the monopoly provider of accident compensation cover in New Zealand. Workers' compensation cover is provided through ACC's Work Account, with ACC's Accredited Employers Program (AEP) allowing eligible companies to partially self-insure.

As the quote above shows, the National Party has committed to offering greater choice in workers' compensation insurance. This decision follows the release of a Discussion Document¹ in June 2011, which included options for extending the AEP and allowing private insurers to compete with ACC.

This paper examines:

- The past: Background on ACC, the Work Account and experience in recent years
- The present: A summary of the proposals in the Discussion Document
- The future: Comments on the proposals, and some of the practical issues should the proposal go ahead

While the government has said it intends to introduce greater choice in workers' compensation, detailed information will not be released until February 2012². This paper comments on the proposal included in the Discussion Document, but the final proposals release in February may turn out to be different.

The government has also said it will examine competition in other ACC accounts, although it has said decisions on competition will not be made until the 2014 election. We therefore restrict our comments in this paper to workers' compensation.

¹ "Increasing Choice in Workplace Accident Compensation", published by the Department of Labour (referred to as the "Discussion Document")

² Source: Minister for ACC quoted in *The National Business Review*, 31 October 2011

Background on ACC

This section provides background on ACC, the Work Account and experience in recent years. This background helps explain why the government released a Discussion Document on choice in workers' compensation insurance.

About ACC

ACC is the organisation that manages and delivers New Zealand's accident insurance scheme. ACC cover replaces the right to sue for damages following an accident. The scheme was established in 1974 and, except for a brief period of competition in 1999, ACC has operated as a public monopoly provider.

The scheme operates a number of distinct accounts which together provide no-fault cover for all accidents occurring in New Zealand. The accounts are:

- Work Account – workers' compensation
- Motor Vehicle Account – accidents related to the use of a vehicle on a public road
- Earners' Account – covers workers for non-work-related accidents
- Non-Earners' Accounts – accident cover for people who do not work
- Treatment Injury Account – cover for accidents occurring during medical treatment.

ACC currently estimates levies on a fully funded basis, with the final decision on levy rates made by the government. Fully funded levies are intended to cover the expected cost of claim and expense payments arising from accidents occurring in the levy year, even though those payments may be made many decades in the future. If ACC's assets subsequently fall below the expected value of future payments, it increases levies to fund the deficit. Conversely, if ACC has surplus assets it reduces levies.

Work Account Dimensions

The average Work Account levy for the year commencing 1 April 2012 will be 1.15% of earnings, which is expected to produce levy revenue of around NZ\$900 million. The current average levy rate is 1.47% of earnings.

For reference, these figures compare to 2011/12 reported premium rates (as a percentage of earnings) for Australian jurisdictions of 1.34% (Victoria), 1.42% (Queensland), 1.68% (New South Wales) and 2.75% (South Australia). These figures have not been adjusted to allow for differences in benefits provided or the occupations of insured workers.

Around half of the ACC Work Account revenue is required to cover the expected cost of accidents occurring in the year, 15% covers ACC expenses, and 8% covers incentive programmes such as experience rating. The balance (over 25% of revenue) represents a funding adjustment to increase assets for prior accident years to ACC's

target level. This funding adjustment includes the cost of accidents occurring prior to 1999, when levies were set on a pay-as-you-go basis rather than fully funded³.

Recent Experience

ACC's claims experience is the subject of extensive commentary, especially when ACC is changing the level of cover provided, or levy rates. To summarise the experience in the briefest possible way, ACC claim costs and liabilities increased in the years to 2009, followed by improvements in more recent years⁴.

Increases in levies were required during the period of increasing claim costs, which in turn resulted in political calls for action.

Stocktake Report

The Steering Group for the Stocktake of ACC Accounts (the Stocktake) was asked to carry out a comprehensive assessment of ACC's performance, and identify areas for improvement. This included examining the state of ACC's finances, and identifying the underlying cost drivers. Options around funding policy and the potential for greater risk sharing were also considered.

The Steering Group was also asked to investigate the merits and feasibility of opening the Work Account to competition, and outline a process to achieve this. The final report was released in December 2010.

The Steering Group were very clear on the direction in which accident insurance in New Zealand should go. In particular, the Steering Group concluded that competitive delivery of the ACC scheme is both necessary and feasible. The following comments are quotes from the Stocktake report⁵:

- “The history of the ACC Scheme to date is one of recurring crises resulting from rapid and unaffordable expansion of the claims liabilities of the Scheme followed by periods of greater focus on claims management and rehabilitation”
- “Only significant structural reform can ensure the sustainability of the ACC Scheme in the medium and long term”
- “The long-term stability of the Scheme requires:
 - immunisation from political processes that may reduce Scheme stability and inhibit the pursuit of improved value for money for levy payers
 - consumer choice, so that levy payers can respond directly to poor service, inefficient pricing and a lack of innovation
 - a wide range of specialist underwriters and service providers who are likely to provide better service in niche markets, including those serving particular ethnic and socioeconomic groups in society

³ Source of Work Account information: “ACC Levy Consultation 2012/13”, available from www.acc.co.nz

⁴ Readers requiring more detailed information on recent experience will find plenty available online. In particular, a great deal of information is available through the website of the Department of Labour.

⁵ “Accident Compensation Services in New Zealand: The Performance of the ACC Scheme and Opportunities for Improvement – Final report prepared for the Minister for ACC by the Steering Group for the Stocktake of ACC Accounts”

- the transparency that is associated with private providers, including explicit equity capital and reserves to provide a buffer against short-term variations in financial performance.”
- “Competitive private delivery of compulsory accident compensation insurance in New Zealand has the ability to address and provide improved outcomes for the ACC Scheme.”

What's in the Discussion Document?

In response to the recommendations of the Stocktake, the government released a Discussion Document in June 2011 including two proposals:

- Introducing choice in the Work Account by allowing private insurers to compete with ACC
- Extending the Accredited Employers Programme (AEP) and offering other risk-sharing options.

We describe each proposal in greater detail in the following sections.

Work Account Competition (the "Choice Proposal")

The proposal involves allowing employers to choose to purchase work-related personal injury cover for their workers from either ACC or a private insurer. The anticipated start date is 1 October 2012.

Private insurers would all need to provide at least the current minimum level of cover set out in legislation. Any employer not actively choosing a private insurer would remain automatically covered by ACC.

The following sections summarise material from the Discussion Document.

Separate ACC Account

ACC would continue to operate as a Crown agent, but would need to operate a separate new Work Account from 1 October 2012. The management of the new Work Account would be subject to disclosure requirements and independent oversight, intended to make ACC's operations transparent to private insurers.

For example, ACC's expense allocation methodology would need to be disclosed and audited, to ensure there was no unfair cross-subsidisation between accounts.

Deregulation of Prices

ACC's Work Account products and prices would be deregulated to provide it with the flexibility to compete. Levies would no longer be set by government, but there would be "regulatory safeguards to ensure that prices are set responsibly."

The Discussion Document states that ACC's funding policy would include similar approaches to private insurers in terms of matters such as funding horizons, risk margins and discount rates. However, as a Crown agent ACC would remain exempt from paying income tax and from the prudential requirements imposed on general insurers in the New Zealand market. In particular, ACC would not be required to hold assets in excess of liabilities, and would not be subject to return on capital targets.

Data Sharing

All private insurers would have access to ACC data to decide whether to enter the market, and to determine their product offering and prices. All insurers operating in the market (including ACC) would be required to provide certain information to a central data pool on an ongoing basis.

Register of private insurance cover

An independent agency will maintain a register of which insurer covers each employer. Insurers will be responsible for notifying the agency when an employer's cover starts and ends. Any employer not covered by a private insurer will be automatically covered by ACC.

The insurer is liable to employees for all claims arising during the period of insurance.

In particular:

- Insurers may agree risk sharing arrangements with employers. In the event of a dispute regarding such arrangements, the insurer must compensate the employee and can then attempt to recover its costs from the employer. For example, if the employer becomes insolvent the insurer will need to pay the full cost of any claims.
- The insurer must compensate employees for claims made during the period of insurance, even if the injury occurred before the insurance policy commenced. For example, gradual process claims such as hearing loss and asbestos-related claims would be initially paid by the current insurer. The current insurer would be entitled to recover costs from previous insurers (including ACC).

Insurer Regulation and Insolvency

All New Zealand general insurers will be subject to the prudential requirements of the Insurance (Prudential Supervision) Act 2010 (IPSA). The Reserve Bank of New Zealand (RBNZ), as prudential supervisor, will review the IPSA to determine whether any modifications are required for insurers writing workers' compensation business.

The IPSA requires insurers to be fully licensed by September 2013. However, insurers wishing to enter the workers' compensation market would need to be fully licensed ahead of the 1 October 2012 start date.

In the event that an insurer became insolvent, ACC would take over claims management with costs met by a levy on all insurers.

Market Regulator

In addition to RBNZ's role as prudential regulator, a market regulator would be established with responsibility for matters such as:

- Ensuring employers and insurers comply with relevant accident compensation legislation
- Managing the registrar of private cover and the data pool
- Administering the insolvency levy, if require
- Setting and administering other levies imposed to cover operating costs

The market regulator will be independent from both the ACC and other regulatory functions.

Claim Lodgement Unit

All initial claims would be lodged with a single claims unit, who would then direct the claim to the appropriate insurer. The initial claim form would therefore be common to all insurers.

One of the purposes of the claim lodgement unit is to reduce administration costs for treatment providers. The costs of running the lodgement unit would be recovered from insurers.

Serious Injury Claims

The Discussion Document notes that there are special considerations relating to serious injury claims, and that further work would be required in this area. The Discussion Document notes that one option would be for ACC to continue to manage these claims.

Other Items

Other items of note include:

- Insurers would be required to make decisions on claims within set timeframes
- There would be an independent process for resolving disputes with ACC or private insurers
- ACC currently funds public health acute services provided by District Health Boards, and private insurers would be expected to pay a share of these costs
- Where legislation specifies minimum prices that ACC must pay to certain treatment providers, the same requirements would apply to private insurers

Accredited Employers Programme (AEP) Extension

What is the AEP?

The AEP allows eligible companies to partially self-insure workers' compensation liabilities.

ACC currently offers employers a range of options involving different amounts of risk sharing. The options relate to the period of time employers manage claims before they are passed back to ACC, and the limit on the employer's maximum claim costs. ACC limits an employer's costs by providing high cost claims and stop loss cover.

The AEP eligibility criteria relate to matters such as an employer's health and safety record, claim management capability and financial strength. ACC is responsible for monitoring each employer's compliance with the criteria on an ongoing basis, for example, through regular audits.

There were 136 employers in the scheme at March 2010, covering almost a quarter of New Zealand workers (by earnings).

What changes are proposed?

The Discussion Document proposes a number of changes to encourage more employers to join the AEP, or to assist employers currently in the scheme. The options include:

- Providing a greater range of risk sharing arrangements. For example, compared to the current options, there would be:
 - Arrangements involving more limited risk sharing to encourage smaller employers to participate in the AEP
 - The ability for large employers to retain a greater share of the risk

- Allowing employers to choose to purchase high cost claims and stop loss cover from either ACC or a private insurer (currently only ACC can provide this cover)
- Reducing compliance costs for AEP participants, for example, by changing the audit requirements.

The Discussion Document also considers options for employers remaining outside the AEP, for example, allowing all employers a choice of excesses.

Is Choice a Good Idea?

We comment on the proposals in two sections:

- This section comments on the arguments in favour of the proposals in the Discussion Document, and potential risks that have been identified
- The next section discusses the practical challenges for actuaries and other accident compensation professionals should the proposals go ahead.

The proposals generated significant debate amongst politicians, industry professionals and the general public. The following four extracts summarise many of the key points raised:

Dr Nick Smith MP (National Party):

“Some people will see ACC’s position as a competitive advantage, as it will not face a cost of capital nor be required to provide a dividend to the Crown. Others suggest it will struggle to compete as it will not be providing other insurance products like general fire, public liability, or other insurance products.

I see it as a workable way to improve efficiency and effectiveness that will give employers choice while continuing to offer state-provided accident insurance cover.

I am confident that introducing choice will lead to a greater focus on reducing the number of injuries, because prices would more closely reflect an individual employer’s risk and safety record.

I also expect the introduction of choice to result in more efficient and effective management of claims, by both ACC and private insurers.

With more players in the market, there will be some additional costs, but the proposals are designed to keep these to a minimum.”

Several extracts from a speech by Dr Nick Smith, Minister for ACC, launching the Discussion Document on 1 June 2011.

Source: <http://www.beehive.govt.nz/speech/increasing-choice-workplace-accident-compensation>

Chris Hipkins MP (Labour Party)

“Independent reviews have found time and time again that ACC is one of the cheapest accident compensation programmes in the world. National simply haven’t made the case that privatisation will lead to a better scheme. There is no evidence to suggest that the private insurance industry can deliver the same cover and entitlement at a lower cost.

In fact, the opposite will be true. The only way the private insurance industry could profit from ACC is by either increasing costs or reducing entitlements. In other words, Kiwis will pay more to get less.

What's more, there are huge risks to privatisation. In the case of insurance provider failure, as we've seen in Christchurch following the recent earthquakes, the taxpayer would be left to pick up the tab."

Extracts from press release by Chris Hipkins, Labour Spokesperson for ACC, May 2011
Source: <http://labour.org.nz/node/3679>

The Treasury:

"In Treasury's view, the absence of either a level playing field (e.g. not being subject to prudential requirements, no capital constraint with an implicit Crown or all employer guarantee) or any usual commercial constraints that apply to other Government owned commercial entities (e.g. paying tax, making a commercial rate of return) means that there is effectively less pressure on ACC than the status quo.

Consequently, the Crown carries the downside risk but has none of the upside ownership benefits."

Extract from Cabinet Paper: "Release of Discussion Document: Increasing Choice in Workplace Accident Compensation"
Source: <http://www.dol.govt.nz/consultation/increasing-choice/Discussion-Document-increasing-choice.pdf>

The Department of Labour:

"Due to the price advantage that ACC would hold (as it is not required to return a profit or pay tax) it is possible the insurers would not secure any market share, and the effects therefore would be limited to the changes made to ACC in order for it to potentially compete (such as differentiated pricing).

Alternatively, there would be "cherry picking" by private insurers. If private insurers do choose to compete against ACC, they may target lower risk employers, leaving ACC as the default provider for high risk employers, leading to increasing levies for this remaining higher risk pool. This could create an ongoing, deteriorating pattern which could make the ACC Work Account unsustainable. If this occurred, it may require an injection of funds from the government to cover outstanding liabilities."

Extract from Department of Labour response to the recommendations of the ACC Stocktake
Source: <http://www.dol.govt.nz/initiatives/workplace/acc/stocktake/stocktake-16.pdf>

We note that the comments from the Department of Labour and The Treasury are extracts from longer reports, which discuss both advantages and potential risks of the proposals in detail. The extracts presented in isolation do not necessarily represent the views of these organisations.

Summary

In summary, the main arguments that have been made in favour of the Choice Proposal are:

- Outcomes are generally better for customers in markets with competing providers, in terms of price, customer service and innovation
- There have been periods when ACC has performed poorly. People who believe ACC's structure has contributed to poor performance argue that the benefits of competition are significant
- Private insurers may be able to undercut ACC if efficient practices result in lower claims costs or expenses
- By allowing to ACC to remain as a participant in the market, the proposal allows employers to have the "best of both worlds," with not-for profit insurance available at lower cost as competition forces ACC to become more efficient
- Another possible advantage is that it doesn't matter whether or not private insurers actually enter the market, since the threat of competition combined with additional flexibility could bring about improvements in ACC's offering to customers

Disadvantages or risks identified regarding the Choice Proposal include:

- That a for-profit model is unsuitable for accident compensation, because private insurers will seek to avoid paying workers' entitlements, or provide a poorer service than ACC in some other way
- That the proposal may eventually lead to other changes to New Zealand accident compensation, for example, changing cover from no-fault to some other basis
- Private insurers may need to charge higher premiums than ACC in order to provide a return on capital. Private insurers may also need to charge higher premiums than ACC if they incur higher expenses, for example, to cover overheads or for marketing/commission
- Insurers may not enter the market if premiums are expected to be higher than ACC. This would leave ACC as the monopoly provider, without further incentives to increase efficiency
- If private insurers do establish a position in the market there may be risks to ACC
 - ACC may be left with all the high risk employers and an ongoing deteriorating pattern of experience, or experience poor financial results for some other reason
 - ACC's current funding policy is to post-fund deficits. This policy would not work under the Choice Proposal because employers could switch insurers rather than pay higher ACC premiums
 - There may be an obligation (or at least an expectation) that government covers any ACC deficit.

AEP Extension

As the extension of an existing programme, the AEP proposals have received much more limited commentary than the Choice Proposal.

Employer organisations such as the New Zealand Association of Accredited Employers (NZAAE) and the Employers and Manufacturers Association (EMA) were generally supportive of the proposal. Both organisations argued that the AEP had a

positive impact on both rehabilitation rates and claim costs, and therefore the proposal to extend the AEP was positive.

The New Zealand Council of Trade Unions argued that the AEP has flaws, and so should not be extended. There was also concern that changes to compliance arrangements would weaken important safeguards.

Practical Issues

This section looks at some of the challenges that would need to be addressed should the government go ahead with the Choice Proposal as outlined in the Discussion Document. Many of the matters are also relevant to the AEP Extension, which would allow private insurers to provide high cost claim and stop loss cover.

In the previous section we discussed advantages, disadvantages and risks of the Choice Proposal, including issues such as whether private insurers would be able to compete with ACC. In this section we assume that the government goes ahead with either or both of the proposals and that insurers decide to enter the market.

We have grouped the issues under the following headings:

- Market Conduct
- ACC Conduct
- Serious Injury Claims
- Actuarial Issues
- Other Practical Matter

Market Conduct

It will be necessary to decide whether all general insurers authorised by the Reserve Bank of New Zealand (RBNZ) can provide workers' compensation. Our preference would be for a separate authorisation procedure, reflecting the specialised nature of workers' compensation business.

Authorisation or licensing for workers' compensation could be undertaken by the separate market conduct regulator noted in the Discussion Document. The suggestion that the market conduct regulator be independent of ACC and separate from RBNZ is a sensible one.

The authorisation process would include an assessment of the internal capabilities of potential insurers, for example, whether they have sufficient expertise to rehabilitate an injured worker living in a rural area.

Other roles identified in the Discussion Document include dispute resolution, operating the claims lodgement unit for initial claims, administering the data pool, and deciding which employers are eligible to self-insure. The market conduct regulator may be able to undertake some of these roles.

The Discussion Document says legislation will continue to specify the minimum level of cover to be provided. In other countries, the markets for compulsory insurance are sometimes subject to additional rules, intended to moderate cost or ensure coverage is widely available. Examples of additional regulations include:

- Pricing restrictions, such as:
 - Specifying the premiums to be charged for individual risk groups
 - Specifying maximum premiums
 - Other rules relating to risk relating, for example, limiting the rating factors that can be used, or the range of prices

- Limiting the amount of brokerage or other commissions that can be paid
- Limiting discounts available for purchasing multiple types of insurance (i.e. limiting or preventing cross-subsidisation between compulsory insurance and other products)
- Guaranteed acceptance, that is, requiring an insurer to cover any employer that requests a policy.

The Discussion Document states that ACC will be subject to regulatory safeguards to ensure that prices are set responsibly, but does not detail what those regulations might be. It is not clear whether regulations would also apply to private insurers, or whether ACC's presence in the market is considered sufficient to address issues of coverage and affordability.

The quotes in the previous section identified issues regarding private insurer market share and potential "cherry picking" of risks. The government has specified that any employer not selecting a private insurer will automatically remain covered by ACC. While this ensures employers (and employees) will not be without cover, ACC may be able to retain large amounts of profitable business by inertia.

In other markets moving to private competition, market shares have sometimes been allocated or auctioned to new providers. A possible compromise position would be to provide private insurers with access to ACC's customer contacts (subject to any privacy concerns).

RBNZ would review whether general insurance prudential standards remain suitable. We consider that the current prudential framework will likely be adequate, although it would be sensible to review the capital factors for premium liabilities and outstanding claims. Guidance may also be required on the calculation of catastrophe charges for accident compensation business.

Private insurers considering whether to enter the market will need to estimate capital requirements. The run-off risk capital charge will increase over time as outstanding claim provisions accumulate. Capital would also be required for interest rate risk, given the long period over which claims are paid.

ACC Conduct

The discussion document states that ACC's Work Account products and prices would be deregulated to provide it with the flexibility to compete. Government will need to determine the supervision arrangements for ACC, and disclose these to private insurers that are considering entering the market.

There may be some employers that are unable to obtain cover from a private insurer, for example, employers with a very poor safety record. Such employers will automatically be covered by ACC. Would regulations limit the maximum premium that ACC can charge? Alternatively, should regulations benefit an employer that cannot afford to pay the expected cost of workers' compensation claims?

ACC has a potential bad debt exposure in providing automatic cover to any employer not privately insured. ACC will need an efficient mechanism to pursue bad debts.

As described in the previous section, ACC's current policy of post-funding deficits is incompatible with a competitive market, and it will be necessary to ensure there is a low probability of ACC requiring additional assets.

The government would be called on to intervene if ACC became unable to meet its liabilities. This implicit government guarantee may also give ACC a competitive advantage, since it effectively gives it a higher credit rating than private insurers.

Conversely, ACC's current policy of using any surplus assets to reduce premiums would also disrupt the market. If ACC premiums were significantly below those charged by private insurers, private insurers would attract little or no business and be forced to leave the market.

The Discussion Document states that ACC would have flexibility to "respond positively to competitive pressure." A key unknown for private insurers is how ACC will behave in the market. In particular, in the absence of a return on capital target, what targets will ACC set for itself? Changes in ACC strategy from, for example, targeting a low probability of making a loss to maximising market share, would have a significant effect on the private insurance market.

Serious Injury Claims

The Discussion Document notes further consideration is required for serious injury claims. There are good reasons for these claims to be managed by a single body, possibly ACC, because of the specialist skills required.

ACC's serious injury claims are unlike anything currently covered by private insurers in New Zealand. While the frequency of serious claims is low, the costs involved are high, uncertain, and can be paid out over more than 50 years. A private insurer would need to carry provisions and the associated capital requirements for the life of the claim.

Carving out serious injury claims might also increase private insurer interest in participating in the market. Excluding these claims (for example, by allowing insurers to pass claims to ACC) significantly reduces both the average term of the liabilities and the risk of unexpected increases in liabilities many years in the future. Reducing the size and volatility of liabilities would reduce capital requirement and, consequently, profit requirements of private insurers. This would make private insurer premiums more comparable with ACC premiums..

Actuarial Issues

There are a number of matters which will be of particular interest to actuaries. Actuaries will certainly be involved in product design, pricing, liability valuation and performance monitoring, at both ACC and any participating private insurers.

It remains to be seen whether actuaries will have a formal role specific to workers' compensation, for example, in providing an opinion on the adequacy of premium rates. There may be a need for new professional standards or guidance to be prepared, especially if there are new statutory roles.

Actuaries are also likely to be employed by the market conduct regulator. For example, the regulator may commission reports on market trends to ensure participants are well-informed and, therefore, charging appropriate premiums. For

example, releasing profitability by insurer and line of business would provide a signal to potential new entrants. Practical issues include determining what should be disclosed, the reporting frequency and the level of aggregation in publically disclosed statistics.

Given the amount of actuarial work required, an obvious question is whether there are enough expert actuaries available in New Zealand. ACC's actuaries would no doubt be in great demand by private insurers.

A particular concern relates to the available to suitable data for pricing. The Discussion Document states there will be a central pool to collect and share information, including ACC's historical data.

ACC has over 30 years of experience as the monopoly workers' compensation insurer, so has plenty of data to share. However, ACC pricing has only reflected risk to a limited extent, so it has had no reason to collect the detailed information required for full risk rating.

Other data-related problems include:

- Data for low-frequency, high severity serious injury claims is always more limited than would be ideal
- Significant changes at ACC in recent years means historical data may no longer be relevant
- Private insurers may decide to offer different levels of cover to ACC (subject to the legal minimums), and would need to cost product changes.

Poor data could result in speculative pricing by private insurers, and the need to include margins over expected costs.

Other Practical Matters

Private insurers will want to purchase reinsurance for workers' compensation business, especially if the high severity claims remain with the private market. Some form of catastrophe cover would also be necessary as large numbers of claims can arise from a single event, for example, the Pike River Mine explosion, or the Canterbury and Christchurch earthquakes.

Ideally reinsurance would be unlimited, since the insurer's liability to employees is also unlimited. Reinsurers would likely want to review ACC data in order to estimate reinsurance premiums.

ACC currently operates a number of separate accounts for different types of claimant, and rules to ensure each claim is allocated to the correct account. Competition may provide an incentive for reporting work-related claims to other ACC accounts. Processes will be needed to minimise "leakages" between accounts, balanced by the need for claim reporting to be as straight-forward as possible.

Staff with experience in accident compensation would be highly sought after by private insurers. ACC staff would be in demand, and losing a significant number of staff would be a problem for ACC.

Treatment providers can submit claims through the single claim lodgement unit and, in some cases, be paid at least the minimum rate specified in legislation. Insurers may

want to develop preferred provider networks, particularly for high cost or specialist services. Providers would need to decide whether or not to participate in such networks, or to actively develop relationships with private insurers. Government may also consider whether regulations are needed in this area, for example, whether insurers would be entitled to limit an employee's choice of treatment provider.

AEP employers often employ third party administrators (TPAs) to manage their workers' compensation claims. This industry would likely expand if the AEP is extended. Private insurers writing small amounts of workers compensation business may also use TPAs rather than employ specialist claim staff directly.