

# Injury Schemes Seminar

Balancing Outcomes

10-12 November 2013  
Sheraton Mirage Gold Coast



## Let's Talk about Agent Remuneration (for outsourced claims and policy administration services)

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# Agenda

- Background
- Creating an enduring partnership
- Principles in remuneration design
  - Alignment of Interests and Fairness
  - Relevance and functionality
- Final Thoughts
- Discussion



# Background

- This presentation concerned with claims and policy administration, although other functions may be outsourced
- Remuneration survey helped to inform this paper
  - 3 scheme responses
  - 9 agent responses

**pwc**

### Remuneration Model Survey

PwC is writing a paper on remuneration models in the context of reinsurance claims and other functions within accident compensation schemes. We will also be putting together a presentation for the upcoming 2013 Injury Scheme Seminar. The title of the paper is "Remuneration Models: Achieving a Balanced Outcome Between the Member and National Service Providers". In the paper, we will discuss the value of reinsurance specific functions to national service providers, the basis of a fair and effective remuneration model, the use of incentives to achieve the desired outcome as well as specific challenges in developing appropriate remuneration models.

We are interested to hear your views as to how well past and recent remuneration models have worked for you and any suggestions or thoughts that you may have in terms of developing an ideal remuneration model. The results of the survey will be shared among all participants and incorporated into our paper. Please note your responses to the survey questions will be kept confidential and all published results will be anonymous.

This survey should take around 10 minutes to complete.

Thank you for taking the time to participate in the survey. Your responses are greatly appreciated.

Please note: This paper is being written independently from any client work that you or our staff are currently doing in this area and will not be used in any way to shape, inform or influence any such client work. This paper is intended to be a principles based paper to raise awareness and create discussion about the important role reinsurance functions play in the design of schemes operating models.

Please direct the completed survey to:

**Email:** [injury@pwc.com.au](mailto:injury@pwc.com.au)

**Fax:** 61 7532 2796

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200 Stacey St  
Gold Coast City  
Queensland 4217



# Background

Scheme by State	Outsource Model	Outsourced Insurance Function	
		Claims	Policy
<b>New South Wales</b>			
NSW WorkCover	Multi agent	Y	Y
NSW Self Insurance Corporation (SICorp)	Multi agent	Y	Y
<b>Victoria</b>			
WorkSafe Victoria	Multi agent	Y	Y
<b>South Australia</b>			
SA WorkCover	Multi agent	Y	N
SA Motor Accident Commission (MAC)	Single agent	Y	N

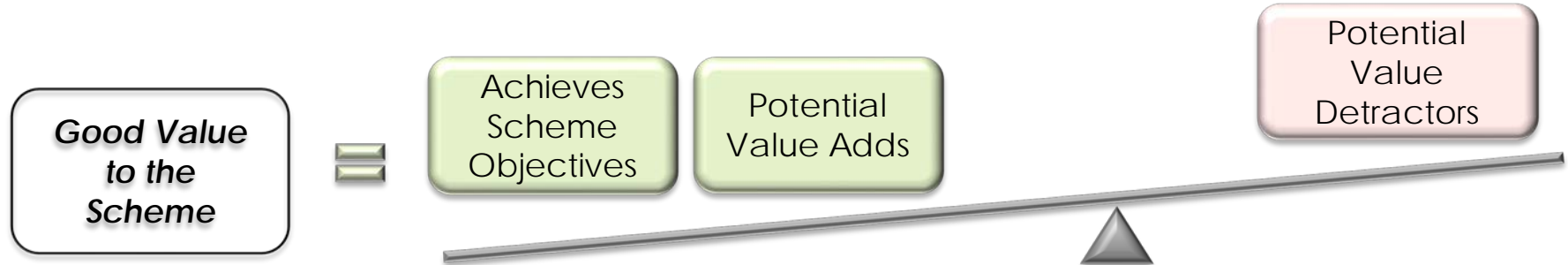


# Creating an Enduring Partnership





# Good Value to the Scheme



## *Potential Value Adds*

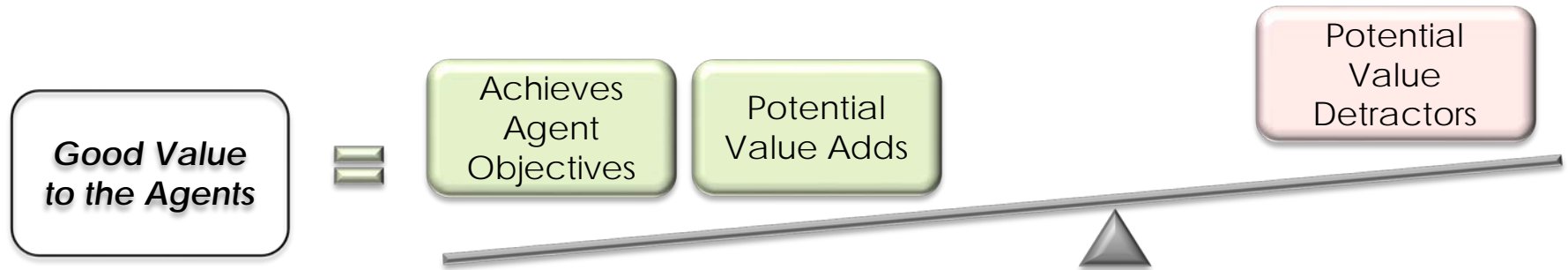
- Access to specialist skills
- Cost savings:
  - Administration efficiencies
  - Claims costs from innovation

## *Potential Value Detractors*

- Agent interests conflict with scheme
- Cost increases:
  - Agents maximise own profits
  - Increased time spent on administration



# Good Value to the Agents



## **Potential Value Adds**

- Achieving profit targets
- Achieving other scheme agent objectives such as cross selling opportunities

## **Potential Value Detractors**

- Reputational risk or loss of market share
- Cost increases if underestimate costs



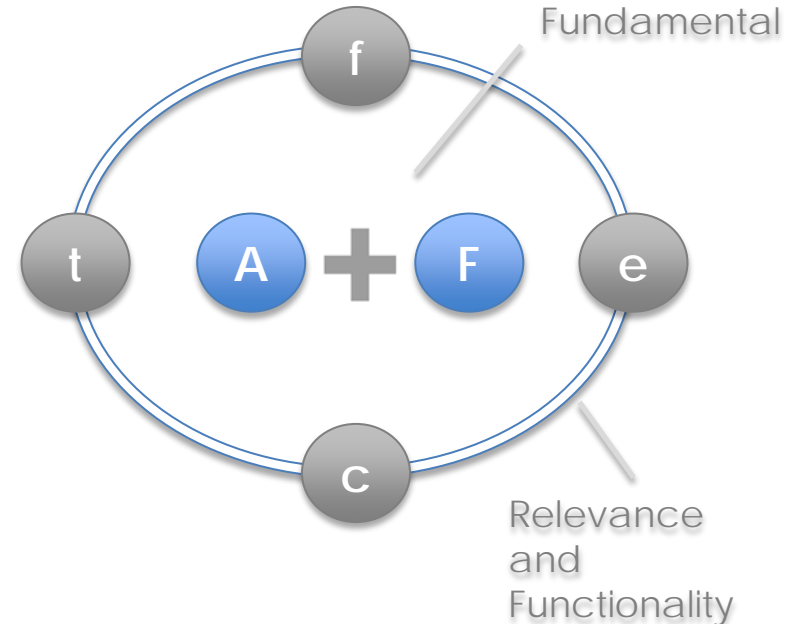
# ***Achieving a Balanced Outcome through Remuneration Model***





# Principles in remuneration design – “AF-fect”

- A** Alignment of Interest
- F** Fairness
- f** Flexibility
- e** Easy to understand and simple
- c** Clarity
- t** Timeframe related



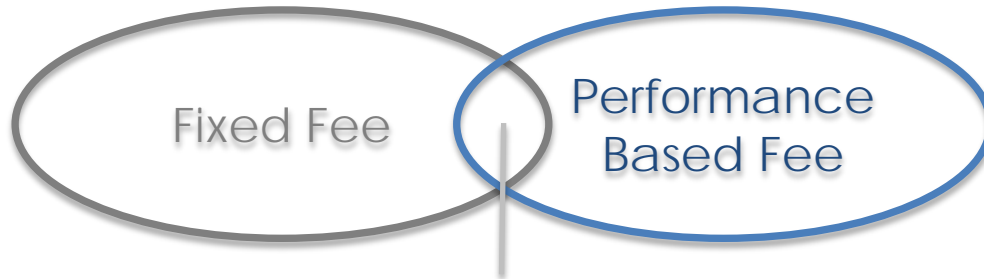


# The Right Incentives: *The use of performance based fees*



*"I would not support a pure fixed fee arrangement as this leads to reduced service and poor liability outcomes. Base remuneration with bonus / malus (capped) tends to work the best."*

✓ Certainty  
✗ Lack of incentives



✓ Provide incentives  
✗ Uncertainty

***Mixed Approach provides a  
Good Balance***



## Proportion of performance based fees: What's Ideal?



*"If you want improvements, set the base fees so that they just cover costs – then make it so that the claims manager can make significant additional fees based on performance."*

- Most respondents suggested that, on average, 10% to 20% of total remuneration should relate to performance based fees.
- Some scheme agents suggested 50% or greater of total remuneration should be performance related.



# Form of Performance Based Fees



1

*"If there is no malus component agents could make a considered decision to completely disregard one of the scheme's objectives and solely chase liability bonuses. This will not deliver all scheme outcomes..."*

2

*"The payout rates of incentive fees currently do not promote investment in innovation in any scheme in Australia."*

3

*"Both relative and absolute performance should be assessed."*



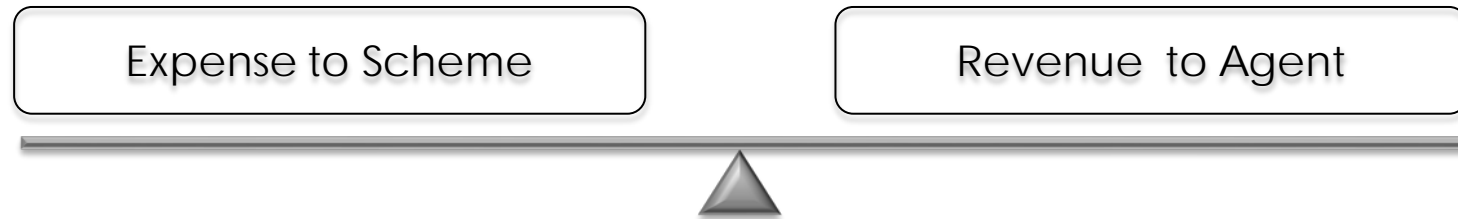
# Performance Measure KPIs



Important to Scheme and Agent	More Important to Scheme	More Important to Agent
<ul style="list-style-type: none"> <li>• Relate to scheme financial objectives</li> </ul>	<ul style="list-style-type: none"> <li>• Importance of relative performance</li> </ul>	<ul style="list-style-type: none"> <li>• Simple and easy to understand</li> </ul>
<ul style="list-style-type: none"> <li>• Timely payments</li> </ul>	<ul style="list-style-type: none"> <li>• Monitored periodically</li> </ul>	<ul style="list-style-type: none"> <li>• KPI's objectively assessed</li> </ul>
<ul style="list-style-type: none"> <li>• Importance of absolute performance</li> </ul>	<ul style="list-style-type: none"> <li>• Performance assessed over more than a year</li> </ul>	<ul style="list-style-type: none"> <li>• Adjustment to KPI targets for factors outside agent control</li> </ul>



# Adequate Remuneration



- What is “adequate” is necessarily a subjective assessment.
- Survey respondents suggested an adequate rate of return :
  - Schemes averaged 15% of expenses
  - Scheme agents averaged 25% of expenses



# Understanding Agent's Expenses



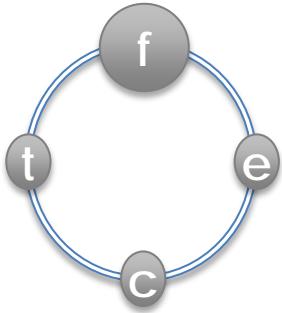
*"All scheme agents operating cost models are quite different and expenses should not be used as the bases of remuneration available."*

*"I have an EXTREMELY strong view that all agents should be paid the same rate. The businesses are not scalable with the exception of IT."*

- Activity based costing methods can be used to understand cost structures.
- Benchmarking against other schemes may be useful.
- There are many challenges:
  - Allowance for overheads and fixed costs?
  - Measuring expenses in a multi-agent model - scalability, profit targets
  - Differences in competitive advantage among scheme agents



# Flexibility is Important



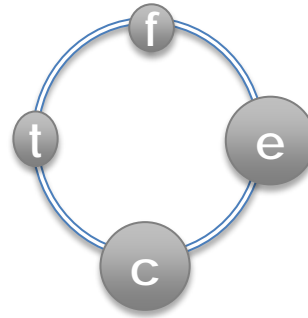
- Accident compensation operates in a constantly changing environment
- Arrangements need to remain relevant

*“Recognise adjustments need to be negotiated during contracts to facilitate scheme priorities and legislative changes.”*





# Simplicity and Clarity



## Easy to understand and simple

- Provides focus and reduce management time
- Balanced against complexity of accident compensation

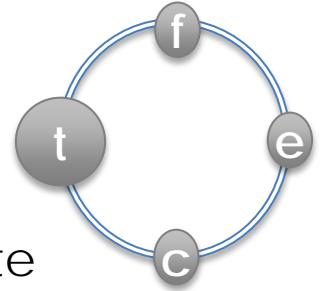
## Clarity of terms and conditions

- Definitions adequate
- Timings are clear
- Minimise misinterpretation



# Appropriate Timeframe

- Longer term contracts reflect nature of claims management
- Survey indicated average term of 5 years was appropriate
- Re-engagement risk may lead to unintended short term focus
- Importance of timely remuneration and monitoring



*" Given the nature of a Workers Compensation the investment often takes time to realise, hence a sufficient period to imbed within process and realise benefits. There is also a significant investment in the contract renewal process which has the potential to distract agents from focussing on core."*

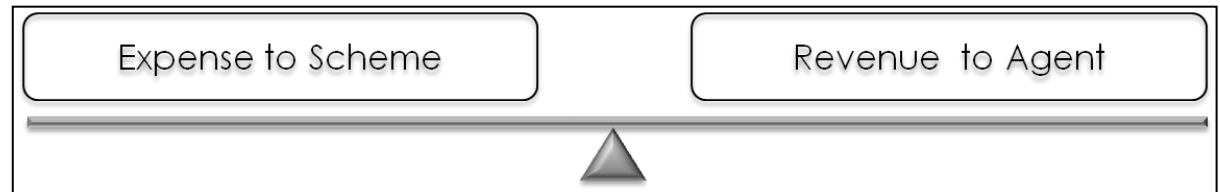
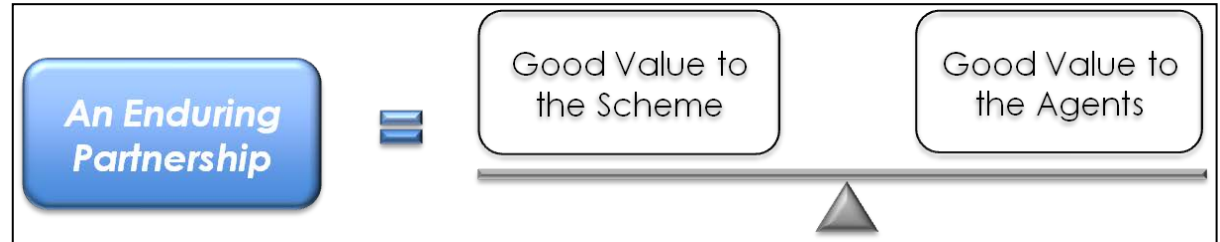


# ***Final Thoughts and Discussions***



# It's all about Balance & AF-fect !

- A** Alignment of Interest
- F** Fairness
- f** Flexibility
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# Discussion

- What is a fair profit margin?
- What form of KPIs have worked well?
- What is an appropriate timeframe to assess Agent performance?
- Should Agents in a multi-agent model be paid the same?
- What proportion of fees should be performance based?
- How should innovation be promoted?