

general insurance seminar

Tides of Change

12-13 November 2012
Sofitel Sydney Wentworth



**Call for Papers
and Presentations**



**Actuaries
Institute**

SYNOPSIS

TO PRIVATISE ACCIDENT COMPENSATION SCHEMES OR NOT?– STAKEHOLDER VIEWS

Bevan Damm, Andrew Doughman

Key words:

WorkCover, Workers Compensation, Privatisation, public and private underwritten accident compensation schemes, scheme stakeholders, rehabilitation, legal profession, insurers, employers, unions, medical profession, common law

Purpose of your paper:

The purpose of this paper and presentation is to summarise the key viewpoints of workers compensation stakeholders (eg employers, unions, lawyers, insurers, medical profession) around privatization of compensation schemes, understand and comment on the key themes emanating from these viewpoints and give the audience a “big-picture” perspective to assist them with forming their own “informed” and “balanced” conclusions regarding privatisations.

Synopsis:

How do the stakeholders view Privatisation of compensation schemes? Does it encourage an efficient and affordable scheme where coverage is widespread? Does it ensure healthy competition? More broadly, does it solve more problems than it causes?

Past history has given us an array of successful and not-so-successful privatized schemes and successful and not-so successful public schemes, but what were the key drivers of the success or lack of it?

One thing we are not short of are views of stakeholders around what the key drivers are and to what extent they are directly related to the success of a privatized scheme. These views vary dramatically depending on:

- (1) which stakeholder you are conversing with;
- (2) the level of understanding, experience and involvement in compensation schemes; and
- (3) where the vested interests lay.

This paper will summarise the key viewpoints of scheme stakeholders, understand and comment on the key themes emanating from these viewpoints and give the audience a “big-picture” perspective to assist them with forming their own “informed” conclusions moving towards a more “balanced” viewpoint.

The paper will also summarise various arguments put forward regarding the pros and cons of privatised and public accident compensation schemes which have been well documented in many reviews and other documents over many years.

The NSW Workers Compensation Scheme will be used as a case study. The authors will not be advocating public and private systems.

general insurance seminar

Tides of Change

12-13 November 2012
Sofitel Sydney Wentworth



**Call for Papers
and Presentations**



**Actuaries
Institute**

SYNOPSIS

ASIA – ARRIVE, SURVIVE, THRIVE

Matt Hodson, William Liang, Hardik Dalal, Merry Tang

Key words:

Asia, general insurance, market scan, portfolio performance, distribution, market penetration,

Purpose of your paper:

Our paper provides a discussion of the current Asian general insurance market. It addresses the common issues that insurers in the Asian marketplace may face throughout the three stages of their business lifecycle – Arrive, Survive, Thrive.

Synopsis:

It is well established that Asia is the next growth area in the world economy, and this growth will also take place in the insurance market. Hence, a strategic decision regarding entering the Asian market needs to be considered now.

Our paper provides a discussion of the current Asian general insurance market. It addresses the common issues that insurers in the Asian marketplace may face throughout their business lifecycle:

1. Arrive – when they're about to enter the market
2. Survive – when they're trying to establish themselves
3. Thrive – when they are looking to grow and transform their operations

For insurers "arriving", we provide an overall market scan including determining the "size of the prize", key entry considerations and some observations on recent market entrants.

For insurers seeking to establish themselves, "surviving", we discuss the current regulatory landscape and how this can be negotiated. We also provide some benchmarks regarding financial performance and operational models and structures (e.g. resource pool, role of actuaries).

Finally, for insurers in the "Thrive" stage, we discuss the current major challenges keeping the C-suite of Asian insurers up at night as well as focusing on where the next growth areas are.

general insurance seminar

Tides of Change

12-13 November 2012
Sofitel Sydney Wentworth



Call for Papers
and Presentations



Actuaries
Institute

SYNOPSIS

KEEPING IT REAL – ANOTHER LOOK AT REAL INTEREST RATES

Peter Mulquiney & Hugh Miller

Key words:

Real interest rates, long term forecasts, reserving, inflation, bond yields

Purpose of your paper:

Attempting to give insight to a common task in general insurance – setting real interest rates. There will be a particular focus on medium to long range forecasting.

Synopsis:

One of the fundamental aspects of reserving work is the real interest rate, being the difference between the risk free discount rate and the assumed inflation rate. The real interest rate thus specifies the rate of discounting applied to future cashflows in current values and is needed in a wide range of insurance work including reserving, pricing and budgeting. This assumption can have a large impact on results, particularly for situations where cashflows are likely to occur in the medium to long term.

While some aspects of estimating future real interest rates are well established (e.g. the use of government bonds to estimate nominal risk free interest rates), others still carry significant uncertainty. How much should real interest rates change given an observed change in nominal interest rates? What are appropriate assumptions for rates that extend beyond the longest yielding government bonds? What degree of uncertainty is there in an adopted set of real interest rates?

These questions are the focus of our paper. It will seek to answer them with reference by:

- ... examining historical estimates under a spectrum of methods and comparing to actual rates;
- ... investigating the behavior of very long term bond rates in overseas markets; and
- ... analysing of the uncertainty surrounding estimates arising from both inflation rate uncertainty, market variation and interpolation tools used.

The research will give some practical advice to actuaries in how they set assumptions as well as giving some commentary on current practice.

general insurance seminar

Tides of Change

12-13 November 2012
Sofitel Sydney Wentworth



**Call for Papers
and Presentations**



**Actuaries
Institute**

SYNOPSIS

PROFIT OR BUST? WHAT ARE THE LATEST TRENDS IN PUBLIC LIABILITY AND PROFESSIONAL INDEMNITY?

Samantha Fuller, Ruth Lisha and Scott Duncan

Key words:

public liability, professional indemnity, profitability, loss ratios, reserving

Purpose of your paper:

This paper explores recent public liability and professional indemnity experience and assesses the implications for future profitability. Using publicly available information, (and possibly some not so public), this examination is performed at an industry level and also by segment to identify key areas of profits and losses. Using this information we project future profits/losses and identify areas of opportunity.

Synopsis:

In the somewhat distant past we saw the very public crisis of Public Liability Insurance, and to a lesser extent Professional Indemnity. Are memories short with history being repeated, or have we learnt our lessons well? Are there pockets of untapped profitability waiting to be exploited or harsh lessons still to come to light? In this paper we'll explore the publicly available data, examine recent experience and make some bold projections for the future.

general insurance seminar

Tides of Change

12-13 November 2012
Sofitel Sydney Wentworth



**Call for Papers
and Presentations**



**Actuaries
Institute**

SYNOPSIS

PREMIUM REGULATION IN PRIVATISED ACCIDENT COMPENSATION SCHEMES – CONSIDERATIONS & AN INTERNATIONAL PERSPECTIVE

Bevan Damm, Andrew Doughman & Peter McCarthy

Key words:

Statutory classes, privately underwritten, premiums system, regulation, CTP, workers compensation, fully funded, experience rating, categories of risks, competition.

Purpose of your paper:

The purpose of the paper is to:

- ... Identify what drives premium rating in privately underwritten schemes taking into account the objectives of insurers, governments and other stakeholders;
- ... Provide an international perspective and benchmark Australian Schemes against the spectrum of possible regulatory models; and
- ... Consider possible regulatory models for a newly privatised workers compensation scheme in Australia and improvements to CTP schemes.

Synopsis:

Accident compensation schemes are a crucial safety net supporting society's daily fundamental operations – working and mobility. Consequently, the operation of accident compensation schemes is regularly scrutinized by various stakeholder groups and forms a regular agenda for political debate.

Amongst the major types of accident compensation schemes are privately underwritten schemes, where privately-owned organizations backed by shareholders invest capital for the purposes of a return on that capital commensurate with the risk they bear. There are inherent conflicts between the objectives of two of the major stakeholder groups operating within the privately underwritten compensation scheme – the insurer's shareholders investing their capital for a return and the Government (representing society's needs) regulating to ensure affordability and abundance of insurance. In between these major stakeholders, are further stakeholder groups such as insurers, employer groups, unions, legal representatives and of course society (policyholders and claimants).

Each group of stakeholders has their own interests and subsequent views as to how privately underwritten schemes should operate. What is generally lacking is a complete, "big-picture" perspective.

This paper considers the key characteristics of accident compensation schemes that influence the regulation of premiums rates including the objectives of key stakeholders for these schemes and an overview of the private insurance market requirements.

We then explore the different premium regulatory model features currently operating in overseas and Australian privately underwritten statutory schemes. Using this information the paper identifies the spectrum of possible regulated premium systems and where each Australian (and a selection of overseas) schemes lie along that continuum. Both CTP and workers compensation schemes are considered.

general insurance seminar

Tides of Change

12-13 November 2012
Sofitel Sydney Wentworth



**Call for Papers
and Presentations**



Finally, we tie together our discussion points and international perspective to consider:

- ... Potential regulatory models should one or more of the workers compensation schemes in Australia be considering privatisation;
- ... The inherent challenges in moving to private underwriting; and
- ... Improvements to existing privately underwritten Australian CTP schemes, again recognising the challenges these schemes face.