Moral Hazard and Workers’ Compensation: Time for a Rethink?

Dr. Kevin Purse
Senior Research Fellow
University of South Australia
Overview

• Pivotal Feature of Insurance Discourse
  – Impact of insurance on loss prevention behaviour by insured parties

• Moral Hazard and Economic Thinking

• Unobserved Behaviour, Uncertainty and the Structuring of Incentives
Moral Hazard and Workers’ Compensation Insurance

• Peculiar Nature of WC Insurance
  – 1st party covered by 2nd party payments to a 3rd party

• Definitions of Moral Hazard
  – Ex ante and post ante
  – Risk bearing and claims reporting moral hazard

• Worker, Employer and Insurer Behaviour

• Perverse Incentives
  – Information and bargaining asymmetries
Moral Hazard Assumptions

- Marginal Utility Theory and Weekly Payments
- Does Money fully Compensate for Loss?
  - Ex ante and post ante
- Do Workers Control WRI Risks?
- Are Compensation Payments Provided Unconditionally?
- Worker Information on Compensation
Research Background

• Predominantly North American
  – Virtually no Australian studies
• Major Research Strategies
  – Cross sectional studies
  – Quasi natural experiments
• Main Findings
  – Increased scheme utilisation
  – Higher number of reported injuries
  – Longer claim durations
Interpreting the Evidence

• Workplace Safety
  – Increased worker risk taking or economists’ confusion
  – Injury reporting and under reporting
  – Fraud and the ‘Monday’ effect

• Workers’ Compensation
  – Malingering or enhanced recovery
  – Easy and hard to diagnose injuries
  – Higher payments and return to work durability
Conclusions

• Deficiencies of Moral Hazard doctrine
  – Insurance industry perspective
  – Overly deterministic assumptions
  – Inadequate theoretical framework
  – Dogmatic interpretation of empirical findings
  – Prejudicial policy prescriptions

• The role of incentives in understanding workers’ compensation needs to be recast
References

• S. Garnett (2000), Workers’ Compensation Fraud: Fact or Fiction, Plaintiff, No 39, pp. 10-16.
References

- Safe Work Australia (February 2010), *Comparison of Workers’ Compensation Arrangements in Australia and New Zealand*, Commonwealth of Australia, Canberra.