Remuneration Models: Achieving a Balanced Outcome between the Scheme and External Service Providers

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Abstract

External service providers are being used within accident compensation schemes for a variety of reasons, including claims and policy administration. There are a number of remuneration models that can be used to reward external service providers and to help achieve scheme outcomes.

In the context of accident compensation schemes, our paper discusses:

- The value and worth of outsourcing specific functions to external service providers.
- Potential conflicting priorities between the scheme and the external service providers.
- Some considerations in developing fair remuneration models.
- Specific challenges in developing appropriate remuneration models for the outsourcing of claims and administration management.
- The use of incentives within remuneration structures and how incentives might be used to enhance outcomes.

Keywords: Remuneration, Incentives, Outcomes, Accident Compensation, Scheme Design, Workers' Compensation

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1. Introduction and Background

1.1. Outsourcing arrangements in accident compensation schemes

External service providers ("agents") are being used within accident compensation schemes ("schemes") for a variety of reasons. This paper focuses primarily on the outsourcing of claims management and general policy administration functions within schemes. Some of the other services that are outsourced include professional services such as accounting, actuarial, reinsurance, risk management, underwriting, legal and/or taxation.

An agency agreement is a contract between the scheme and the agent that documents the terms and conditions of the outsourced services. In exchange for the provision of their services, the agent receives an agreed form of remuneration from the scheme.

The ideal outcome of these arrangements is where the agent's outcomes are able to be aligned with the scheme's objectives. Given that accident compensation schemes are designed to support and provide financial compensation to injured claimants, the achievement of the scheme objectives is important to protect claimant outcomes.

A remuneration arrangement that rewards the alignment of agent actions with scheme objectives is essential to a successful outsourcing arrangement. This paper explores the use of remuneration models to help achieve a balanced outcome between the scheme and the agents.

1.2. Remuneration survey

Remuneration arrangements for outsourced administration functions are, by their nature, confidential agreements. There is a limited amount of publicly available literature describing these arrangements. As part of the research for this paper we developed a remuneration survey that we sent to various schemes and agents (the "remuneration survey"). The questions that we asked are shown as Appendix A to this paper and a summary of the remuneration survey results are shown as Appendix B.

We received 12 responses to the remuneration survey, with 3 scheme responses and 9 agent responses. The main results from this survey and selected quotes from survey respondents have been included throughout this paper (in blue text boxes). These survey responses have been important in providing an evidence base for the insights and conclusions of this paper.

1.3. Structure of this paper

Section 2 of this paper explores some considerations in deciding when to outsource claims and policy administration services. In Section 3 we discuss some principles of remuneration design for these arrangements. Section 4 looks at the considerations in setting "adequate" levels of remuneration. In Section 5 we discuss the use of performance based fees within remuneration models and in Section 6 we provide a summary of our key conclusions.

2. Considerations in Outsourcing Claims and Policy Administration

2.1. Background

There are a number of different accident compensations schemes operating across Australia for workers compensation and compulsory third party (CTP) insurance. Some of these schemes have claims and policy administration outsourcing arrangements with agents. The table below sets out the main schemes which operate within Australia which have these existing outsourcing arrangements.

Table 1: Schemes in Australia which employ an outsourcing model

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

The operating models differ between the schemes in terms of specific functions which are outsourced (claims and/or policy administration) and the number of agents that are contracted.

A list of some of the authorised agents employed by the schemes as outlined in publicly available information is given below:

- Allianz Australia Insurance Ltd (Allianz)
- CGU Insurance Ltd (CGU)
- Employers Mutual Ltd (EML)
- Gallagher Bassett Services Pty Ltd (Gallagher Bassett)
- GIO General Ltd (GIO)
- QBE Workers Compensation (NSW) Limited (QBE)
- Xchanging Integrated Services Australia Pty Ltd (Xchanging)

Agents such as Allianz, CGU, GIO, QBE and EML are insurers themselves while agents such as Gallagher Bassett and Xchanging are specialist service providers. The decision to outsource, the level of outsourcing, the number and the choice of agents engaged in the outsourcing arrangements ultimately depends on the profile, skills and objectives of the scheme.

2.2. The value of outsourcing

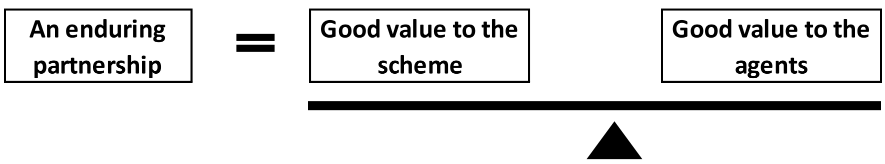
An outsourcing arrangement is a partnership between a scheme and agents. A successful partnership is one that allows the scheme and the agents to achieve their objectives.

Being two separate entities with different commercial focuses, the interests of the scheme and the agents are not necessarily aligned. The agents want to maximise their profitability while the scheme wants to achieve its objectives.

A scheme's objectives are generally described in legislation and may include things such as promoting the effective rehabilitation of injured persons, cost effectiveness & viability of the scheme, ensuring timely and appropriate compensation payments, promoting the prevention of injuries and early return to work.

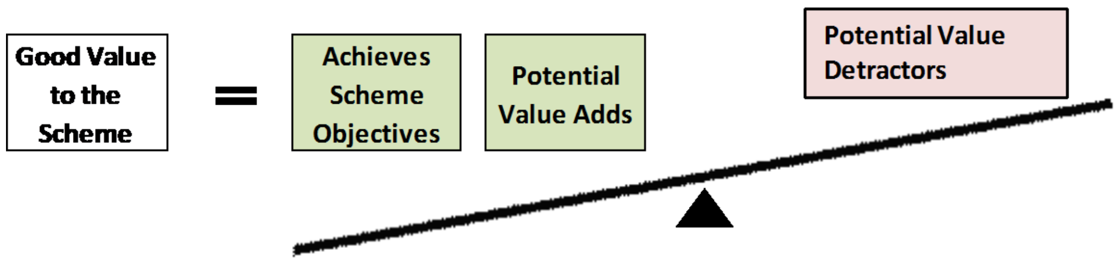
In Australia there is an oligopoly for outsourced policy and claims administrative services between a few agents. There exists a mutual dependency between the scheme and the agents. For example, if an agent leaves the arrangement, the agent will be potentially losing a large revenue stream and from the scheme's perspective, it may be difficult to find a suitable replacement. The fact that the scheme needs the agents as much as the agents need the scheme further adds to the significance of a successful partnership.

To ensure a sustainable and rewarding relationship, it is crucial that both the scheme and the agents develop an understanding of the value of the outsourcing arrangement to themselves. A good balance should be achieved between the value of the arrangement to the scheme and the value to the agents.



2.2.1. Good value to the scheme

In determining the value to the scheme, and hence whether to use an outsourcing arrangement, the scheme should compare the potential benefits/advantages ("value adds") of such an arrangement against the potential costs/disadvantages ("value detractors"). Good value to the scheme may be thought of as an arrangement where the potential "value adds" outweighs the potential "value detractors" while allowing the scheme to still achieve its objectives.



Some examples of the potential "value adds" and "value detractors" for the scheme are provided in the table below.

Table 2: Examples of potential value adds and value detractors to the scheme

Potential Value Adds	Potential Value Detractors
1. Access to specialist skills and expertise of agents, for example specialist claims management services, which may lead to improved claimant outcomes. 2. Costs savings from: • Reduced administrative costs through competitive tenders. • Reduced claims cost from innovative claim management initiatives.	1. Agents may be acting in their own interests rather than in the interests of the scheme, for example to maximise profits, which may result in damage to the reputation of the Scheme. 2. Cost increases from: • Increased administrative costs if underlying costs are not well understood. • Increased claims cost if agent and scheme objectives are not aligned and if there is a lack of innovation and performance from agents.

The potential value detractors are risks that the scheme needs to manage through appropriate mitigation controls. The types of control measures to mitigate against potential value detractors may include:

- Imposition of minimum thresholds ("quality gates") that the agents need to meet in order to receive their remuneration. These quality gates should be designed to align with scheme objectives. This is discussed further in Section 3.1.1.

- Inclusion of performance based fee elements within the remuneration arrangement such that if performance against scheme objectives is good, the agent will be entitled to higher remuneration. Strategically selected key performance indicators ("KPIs") may be constructed to assess the agents' performance such that remuneration outcomes are aligned with scheme objectives. This is discussed further in Sections 3.1.2 and 5.

- Direct intervention by the scheme may be used to respond to areas where agents may be performing poorly. This "hands on" approach can be useful in changing agent behaviours where mitigation controls, such as those described above, do not promote the right behaviours.

- The periodic competitive tender of agents with higher market shares awarded to agents which are anticipated to deliver the best overall ongoing value to the scheme. Past performance may be a key criterion for consideration.

- The cultivation of high performance culture, for example, through the publishing of performance based rankings of agents under a number of criteria. The risk of reputational damage as poor performing agents may provide additional incentive to deliver the desired outcomes.

2.2.2. Good value to the agent

Good value to the agents may be thought of as an arrangement where the potential value adds outweigh the potential value detractors while allowing the agents to achieve an adequate level of remuneration to cover the agents' expenses, including a fair profit margin.

Some examples of the potential value adds and value detractors are provided in the table below.

Table 3: Examples of potential value adds and value detractors to the agents

Potential Value Adds	Potential Value Detractors
1. Achieving profit targets arising from remuneration fees exceeding costs in providing the specified services. 2. Assistance in achieving other agent objectives specific to the strategic profile of the agent. For example, if an agent is an insurer who also provides other types of commercial insurance or personal insurance products, then the outsourced administration arrangement may hold value as a cross selling opportunity. One reason for this is employers may prefer to deal with one insurer nationally for all of their insurance needs.	1. Reputational risk of the agent. For example, the scheme may publish performance based rankings of agents which create a risk of reputational damage for poorer performing agents. 2. Cost increases from misestimating the scope of services to be provided. 3. Loss of market share and scalability if agent performs poorly.

The impact of potential value detractors is highlighted by one of our agent survey respondents who observed that being an agent:

"often damages brand and there should be premium for this. Today Tonight etc rarely run good news stories about workers compensation and often we are forced to make decisions that we would not make if we were underwriting the risk and those decisions can damage our brand."

An arrangement that is good value to the agent is essential to ensure that the arrangement is fair to the agents. This will undoubtedly need to be balanced against the fairness to the scheme. We discuss fairness, another fundamental aspect of a well constructed remuneration arrangement, further in Section 3.2.

2.2.3. Balancing good value to the scheme and agents

The above discussion highlights some of the potentially conflicting objectives between what represents good value to the scheme and what represents good value to the agents. The remuneration agreement is one of the mechanisms that can help to balance the tension between these conflicting objectives.

3. Principles of Remuneration Arrangement Design

In our opinion, a well-designed remuneration arrangement should align with the following key "AF-fect" principles.

- A — Alignment of interests
- F — Fairness

Fundamental to an effective remuneration arrangement

- f — Flexibility
- e — Easy to understand and simple
- c — Clarity of terms and conditions
- t — Timeframe related

Ensures that an remuneration arrangement is relevant and functional

We consider the first two principles, "A" and "F", as the building blocks of an effective remuneration arrangement and the remaining four principles, "f", "e", "c" and "t" as the supporting elements to ensure that a remuneration arrangement is relevant and functional.

Each of these items is discussed in the following sections.

3.1. "A": Alignment of interests

Section 2.2 highlighted some of the potential conflicts of interest between the scheme and the agent. The alignment of interests can be achieved in a number of ways:

- The remuneration arrangement can be used to help align interests through payouts and measures which are designed to support the scheme's objectives.
  - Remuneration payouts can be broadly structured as either a fixed fee for service arrangement ("fee for service") and/or a variable fee based on performance ("performance based fees").
  - Remuneration measures can be process based ("process measures") or outcome based ("outcome measures").
- The introduction of an element of competition between agents in a multi-agent model, such as the periodic competitive tender of agents outsourcing arrangements and the publishing of agent performance rankings of agents in a multi-agent model, can help to align agent interests with scheme objectives.

3.1.1. Fee for service arrangements

A fee for service arrangement may be expressed as a fixed fee or cost per service. These arrangements provide agents with a level of certainty around remuneration levels and allow more informed budgeting and planning of resources to manage the services. However, these types of arrangements will not, of themselves, provide incentive for the agent to have outcomes aligned with scheme objectives. The agents are not incentivised through variable payout to act (or not act) in a certain way.

Remuneration measures are required to influence the performance of the agents. The minimum level of performance that the agents should be expected to achieve can be managed through process measures such as quality gates. Quality gates are measures which set the minimum level of service performance that the agents are required to deliver to be subject to payment of their remuneration.

Through careful selection of quality gates, the scheme can set the bar for operational effectiveness and efficiency. For example, in the context of claims management if the scheme wants timely processing of claims, a requirement that a certain percentage of all claims should be processed by the agent within 3 days of the claims being lodged could be put in place.

To design effective remuneration measures, the "SMART" principle can be used as a guide. This principle was first introduced in the November 1981 issue of *Management Review* by George T.Doran[1] and is well covered by existing literature.

3.1.2. Performance based fee arrangements

Performance based fee arrangements provide remuneration that is contingent upon agents achieving certain outcomes. They can be used to reward desirable behaviours and/or penalise undesirable behaviours of agents.

These types of arrangements therefore provide incentive for agents to concentrate their efforts and investments in areas that are desired by the scheme and have outcomes aligned with scheme objectives. However, these arrangements provide agents with a level of uncertainty around remuneration levels and it may be more difficult for agents to plan.

Outcome measures are applicable in the context of performance based fee arrangements. For example, with respect to claims management, if the scheme has an objective to encourage return to work of injured workers, a measure which rewards and/or penalise the agents based on how well they are returning claimants to work relative to targets can be put in place. Similar to process measures, the design of effective outcome measures is important and the "SMART" principle can be used as a guide.

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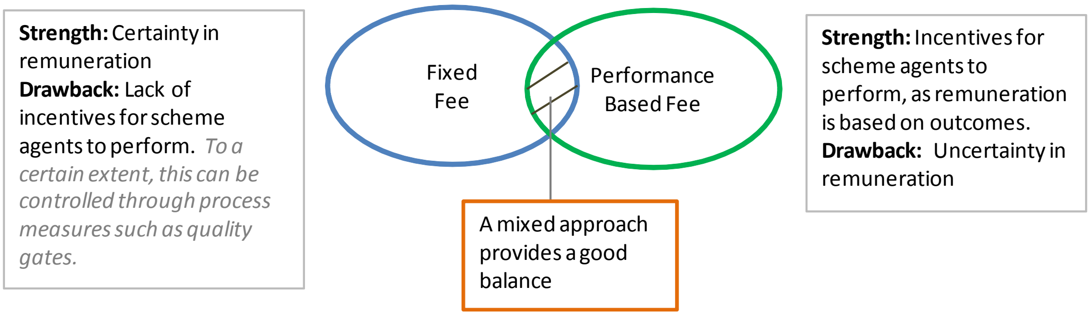
[1] Doran, G. T. (1981). There's a S.M.A.R.T. way to write management's goals and objectives. Management Review, Volume 70, Issue 11(AMA FORUM), pp. 35–36. The letters broadly align with goals having the characteristics of being Specific, Measurable, Attainable, Realistic and Time-bound.

We provide further discussion around performance based fee arrangements in Section 5.

3.1.3. A mixed approach



The above discussion indicates that the best balance between the interests of the scheme and the agents is achieved through a combination of base fee for service and performance based fees.

Our survey results indicated that a combination of base and performance based fees is the preferred structure for a remuneration model. This was best summed up by one agent respondent who commented that:

"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."

3.2. "F": Fairness

A remuneration arrangement that is "fair" to both the scheme and the agent is important in promoting long and enduring relationships. The remuneration is an expense of the scheme but is revenue to the agent. Hence, schemes want to minimise their expenses while agents want to maximise their revenues. An adequate level of remuneration is one that balances these conflicting priorities. The level of remuneration should not be excessive for the scheme but at the same time provide a sufficient level of profit for the agent.

It is in a scheme's best interest to pay agents an adequate level of remuneration so that agents are willing to work towards achieving scheme objectives. Agents' run a commercial business and make decisions based upon the expected profit that they are able to generate. If agents do not feel they are being compensated adequately for their services then this may result in a lack of further investment in their operations, which may lead to sustained poor performance for the scheme. Section 4 provides further discussion around determining an adequate level of remuneration.

3.3. "f": Flexibility

The accident compensation environment is constantly changing. Some of these changes can significantly alter either the amount of work that an agent may need to perform or may impact on the ability of the agent to achieve existing remuneration measures. Some good examples of recent changes that have been outside the control of agents include the impact of the Global Financial Crisis and the 2012 NSW Workers Compensation Benefit Reforms.

As one scheme commented, remuneration arrangements need to:

"Recognise adjustments need to be negotiated during contracts to facilitate scheme priorities and legislative changes."

The remuneration arrangement therefore needs to be structured such that it is flexible enough to accommodate these changing circumstances so that the arrangement continues to be relevant and/or the agents are not unduly rewarded or penalised for improvements or deterioration that are outside of their control. Changes in the scope of works for agents may require a change in remuneration arrangements, both up and down.

There is obviously a trade-off between a remuneration contract being fixed (and hence giving agents the ability to better plan for future resources) and to be flexible enough to cater for changing circumstances. The arrangements need to be robust enough to continue to be appropriate in longer term multi-year contracts.

3.4. "e": Easy to understand and simple

A simple and easy to understand remuneration arrangement is desirable as:

- It can provide focus on the priorities of the scheme. For example, a model with three main KPIs is easier to understand than a model with twenty KPIs and allows the agents to concentrate their efforts in a few key areas.
- It is easier to administer, requiring less management time and resources, thus reducing costs.
- It potentially limits disputes between the scheme and agents. This could prevent unnecessary time and effort being spent to resolve disputes.

This needs to be balanced against the complexity of managing accident compensation business particularly considering the long tail nature of many types of claims. For example, a model with three main KPIs may not capture all of the key risks, given the complexities of the schemes, and hence may not be sufficient to deliver the desired scheme objectives.

The constantly changing accident compensation environment may result in outcomes which are outside the control of, and unrelated to, the efforts of the agents. In these cases the scheme may consider adjusting for these "external factors" before assessing agent performance. This additional layer of complexity may be deemed worthwhile and appropriate.

Thus, while a simple and easy to understand design is preferred there are often sound reasons why a level of complexity needs to be introduced into remuneration arrangements.

3.5. "c": Clarity of terms and conditions

The scheme and the agents are bound by the remuneration contract. The definitions, terms and conditions used in the contract should be clearly specified and consistently applied throughout the contract. This includes, but is not limited to:

- The length over which the agents' performance is measured.
- The remuneration measures which the agents are assessed against.
- The definition of the remuneration measures used and the associated KPIs.
- Any minimum performance thresholds that the agents need to meet to receive their remuneration.
- The timing for finalisation of remuneration.
- Allowance for adjustments for significant external events.

Clarity in the contract wordings is important so that both the scheme and the agents are clear on how the remuneration agreement works as well as to minimise the possibility of misinterpretation and thus, the potential for disputes.

For example, if the scheme is interested in promoting return to work following an injury and a return to work measure is to be developed, some examples of specifications required for clarity may include:

- Are certain claims excluded from the definition of return to work?
- What constitutes return to work?
  - Total return to work?
  - Partial return to work in the same function as before?
  - Partial return to work in any function?
  - The number of hours worked to qualify as partial return to work?
- The treatment for partial return to work for the purposes of remuneration assessment?
- Which cohort of claims are included in the return to work measure?

3.6. "t": Timeframe related

3.6.1. Longer term contracts

The long tail nature of many accident compensation claims means that it may take some time before investments in technology, processes or other initiatives made by agents translate into improved scheme outcomes. In addition it can take some time at the commencement of the contract to set up and develop processes and reporting requirements. Time is also required at the end of the contract to maximise returns and prepare submissions for renewal.

Some remuneration survey respondents commented on the significant investment, both in terms of time and cost, to participate effectively in outsourced arrangements:

"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."

These factors mean that a remuneration arrangement should ideally span over a number of years. This needs to be balanced against the potential difficulty in addressing poor agents' performance and/or to make alterations to the contract if the contract period runs over a period that is too long.

On average our survey respondents indicated 5 years as an appropriate length for the contract.

3.6.2. Re-engagement risk and unintended short-term view

While a competitive tender process is important to manage the quality of agents, the lack of certainty of renewal may encourage agents to make short term decisions, which may be sub-optimal in the long run. If an agent is not reappointed, there are large costs such as redundancy payments associated with the non renewal. Conditional renewability based on performance may be a way to reduce the risk of short term decision making.

This was best summarised by one agent respondent who commented that:

"The lack of certainty of renewal is the key driver to short term decision making. Agreements should include performance criteria that if met during the term of the current contract will guarantee renewal. Probity overrides could still give Scheme the ability to control the integrity of the scheme and deny renewal."

3.6.3. Timely remuneration payment

The payment structure of the remuneration arrangement is an important consideration to an agent because it may influence the amount of capital required to be sourced to run the business. The payment structure would include the expected timing of payments and the size of each payment. There may be different timing for different components of an agent's remuneration. For example, base fees may be paid more frequently to allow agents to meet running costs of providing the services, while performance based fees may be delayed until performance over the relevant period is able to be assessed. The structure of these payments may also influence the ability of the agent to invest in more significant initiatives to help improve scheme outcomes.

3.6.4. The importance of timely monitoring

Given the long term nature of the contract, monitoring is important to provide the necessary feedback to agents and for the scheme to identify any shortcomings of the existing arrangement, whether through flaws in design or changes in the environment.

The responsibilities of monitoring should ideally be shared by both the agents and the scheme. The agents should be proactive in notifying the scheme of the factors that are influencing their performance, while noting that the scheme needs to ensure that there is consistency of measures to make meaningful comparisons of performance within multi-agent models. It is particularly important to identify any changes in the environment which may call for a change to the remuneration arrangement.

On the other hand, the scheme would be able to provide a whole-of-scheme insight in multi-agent models and also have the ability to gauge the agents' performance relative to the scheme so that a continuous cycle of improvement can be promoted amongst agents.

This obviously raises the question as to the extent that agent innovations should be shared amongst agents to help the scheme to achieve superior outcomes.

This was best summarised by one agent respondent who made the following observation in relation to monitoring:

"*Schemes can often have insights through centralised consolidated data which an individual agent is not able to access. As such a balanced approach will highlight underperformers and lead to a faster rate of improvement.*"

Once a decision is made to outsource certain administrative functions, the scheme needs to make a decision about how proactive it will be in managing and monitoring the arrangements once the agents are selected.

Our survey results indicated that some agents view both over involvement of the scheme and a completely hands off approach can lead to poor results. This was best summarised by the following response:

"Over involvement of the scheme tends to lead to poor levels of innovation and differentiation. Completely hands off tends to lead to poor results and governance. The scheme should be involved in monitoring of performance and oversight of governance, but allow claims managers to innovate."

Some agents also suggested that as long as the agent is delivering the required scheme outcomes then the scheme should allow the agent flexibility in how they deliver their services. This was best summarised by the following response:

"Once an agent is awarded a contract to manage on behalf of the scheme then they should be left to deliver the agreed outcomes. If they continue to meet the required targets then there should be minimal interaction with the scheme. With performance benchmarks set up front agents can then focus on meeting these and hence guaranteeing their renewal which then encourages further innovation and investment and continuous improvement and hence the virtuous circle is born!"

On balance, some level of scheme involvement is important as the scheme would be able to provide a whole-of-scheme insight and also direction in terms of the strategy and the focus of the agents in their management of the outsourced function(s).

4. An Adequate Level of Remuneration

In Section 3.2 we highlighted the importance of determining a fair level of remuneration so that a balanced scheme outcome can be achieved.

In this section, we explore what constitutes an adequate and fair level of remuneration through a discussion of the cost structure of agents and a discussion around an adequate return for the agents.

4.1. Understanding the cost structure of agents

To determine an adequate level of remuneration, it is necessary to develop an appreciation for the "cost of production". This requires an understanding of the cost of resourcing to enable accurate, timely and best practice policy and claims administration functions.

Crucial to any costing exercise is a robust specification of the services to be provided by the agents. Agents may have a significant role in managing a range of activities including managing legal, investigation, medico-legal, allied medical providers, occupational rehabilitation, and dispute management. Other activities may be less clear such as prevention of accidents and other occupational, health and safety initiatives. A complete specification will be included in the agency agreement contracts and supporting documentation outlining the commercial agreement between the scheme and agent.

The scheme will generally try to gain an understanding of the cost structures of the prospective agents for the services that they are being contracted to perform. If the scheme underestimates the true cost, then there is a risk that agents are unable to invest properly in the business or that they may be forced to cut corners leading to poor scheme outcomes. If the scheme overestimates the cost of production, agents may make supernormal profits.

A scheme must balance the importance of various scheme objectives with the investment required to meet those scheme objectives. Superior outcomes require investment by the agents and the reasonable investment component will need to be accounted for in the expectations of achieving that outcome.

The assessment of a reasonable allowance for the investment component may be quite subjective:

- To what extent should the level of remuneration reflect an investment component aligned to achieving scheme objectives? This could allow agents to maintain and/or improve delivery of services. To some extent longer term contracts allow greater flexibility over the investment into these types of projects.

- The level of investment is likely to differ depending on the timeframe. For example, investments that yield outcomes in 10 years may be more difficult and expensive to implement than investments that yield smaller outcomes in 3 years.

4.1.1. Activity based costing

An activity based costing method can be used to help understand underlying cost structures. This costing methodology breaks down the key activities within an organisation and assigns a cost of production to each activity. The cost per activity can be related to the services that are provided.

One of the key activities outsourced within accident compensation schemes is claims management. The simplest activity based costing analysis may determine a cost per claim managed. This type of approach may work well where the distribution of claims is stable within an agent or across agents in a multi-agent model.

However, in practice all claims do not require the same amount of effort to manage. Hence the claims management activity may be broken down into the management of claims by duration (newly reported claims versus older claims) or by injury severity (claimants with minor injuries versus more seriously injured claimants) or by claim management activity (litigation, occupational rehabilitation, investigation etc.). The level of granularity in the "activities" chosen should generally reflect an attempt to understand the underlying cost structures in terms of how the remuneration arrangements are intended to be structured.

4.1.2. Challenges in measuring agent cost structures

Measuring cost structures can be a reasonably complex exercise and poses a number of challenges. One of the challenges involves the methodology for allocating overheads and other indirect costs of the business. Some sort of weighting is required to allocate indirect expenses to these activities and this will necessarily involve a number of subjective assumptions. It can also be problematic to determine the appropriate method for the amortisation of large fixed costs, such as an upgrade of Information Technology (IT) systems, process redesign initiatives, or major retraining programs.

Prospective agents may also structure their operations very differently to gain competitive advantages and this can lead to very different cost structures. Prospective agents will also have varying levels of infrastructure to support their operational business model. For example, some agents are licensed private insurers while others are specialist administration providers. As a result they may have very different cost structures including different levels of IT systems, overheads, or claims management structures.

One agent remuneration survey respondent commented that:

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

Differences in competitive advantage among agents may be driven by factors such as:

- *Size and scalability*. For example, larger agents may have better expense scalability and therefore, all else being equal, may have a lower per unit cost of production.

> **There were a number of different views from agent respondents on scalability. One respondent had the view that agent expenses had limited scalability:**
>
> ***"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."***

- *Skills and experience*. For example, some agents may have built up industry specific skills, specialised claims experience or efficient IT systems over time which could lead to the achievement of better claims outcomes or lower cost per production relative to newly established agents.

- *Required level of return*. Different agents will have a different level of minimum acceptable profitability, driven by factors such as their shareholders' profit targets, company's strategy, risk profile etc.

- *Quality of management*. For example, some agents have a better quality management team which may result in better claim outcomes and better stakeholder management due to the strength of their leadership.

- *Barriers to entry for new entrants*. The current pool of agents form an oligopoly for outsourced policy and claims administration services, as there are a number of significant cost and experience barriers to entry for new entrants, especially where IT systems are also outsourced.

Benchmarking can be useful to sense check the cost structures. For example, comparison of results from a number of different agents can help to form a more realistic view on the costs of business and may mitigate the risks that an agent may "game" the exercise by padding indirect costs. High level checks can also be performed by benchmarking against other comparable insurance schemes and products. There are a number of valid comparisons that may be used. For example the WA workers compensation scheme publishes an average premium rate and its component cost parts. APRA also publishes some information around general insurers' expenses.

From the scheme's perspective, the outsourcing arrangements should be awarded to the agent(s) who deliver the best competitive value or essentially the best 'package' to the arrangement. From the agent's perspective, due to differences in competitive advantage between agents, for a given arrangement, some agents may find that it delivers good value while others may find that it delivers poor value.

4.2. What is an adequate rate of return for agents?

The assessment of what constitutes an adequate rate of return for agents ultimately depends on what is considered to be "adequate".

4.2.1. Evaluation basis for adequacy of total remuneration

There are a number of ways to evaluate the adequacy of total remuneration and to express profitability. Two potential approaches are:

- *Profit margin* – this considers the profit as a percentage of the expenses incurred in managing the outsourced function.
- *Return on capital* – this approach is commonly used within insurance companies to assess profitability of insurance products. It measures profit against capital requirements of the business.

There are challenges in evaluating the adequacy of total remuneration using the return on capital approach. This is due to these arrangements typically having low capital requirements, especially if remuneration is paid up front. The agents also do not have any insurance risk to allow for as the risk is borne by the scheme.

The majority of respondents in our remuneration survey agreed that a margin above expenses was the most appropriate way to evaluate profitability for this business and hence the rest of our discussion follows this evaluation basis.

As one of the survey respondents highlighted:

"These businesses require little capital so a % return on capital may not be the best way to set remuneration."

4.2.2. Views on an adequate rate of return

A determination of an adequate rate of return is a necessarily subjective assessment.

Our remuneration survey showed that agent responses on the profit margins required over expenses ranged from 17.5% to 35%. Perhaps unsurprisingly schemes suggested a lower level of reasonable return than that of agents.

The schemes suggested that an average margin over expenses of 15% was appropriate while the agents suggested an average margin of about 22.5%.

A review of APRA's published statistics on general insurers indicated that insurers' net profit after tax as a percentage of net written premium has averaged about 18% over the last 10 years but has fluctuated from 10% to 25%. While these results are not directly comparable to outsourcing arrangements, primarily because general insurance operations would likely include an additional profit margin for insurance risk, they nonetheless provide an indication of profitability relative to revenues,

Table 4: Net profit as a Percentage of Net Premium over Last 10 Years

	Average	Minimum	Maximum
Direct Insurers	14%	0%	41%
Reinsurers	33%	25%	48%
Total Industry	18%	10%	25%

Source: Quarterly General Insurance Performance - June 2013 (issued 29 August 2013)

Our discussion indicates that long term target return ranges from 15% to 25% may be an appropriate starting place for agents to be able to attract additional investment into their operations, noting the trade-off between additional investment and improved scheme outcomes.

5. Performance Based Fees

The key principle underlying performance based fees is that the agent should share in the favourable or unfavourable results of the scheme to the extent that they have contributed to the scheme outcome. Performance based fees should therefore be designed to align agent outcomes with scheme objectives.

An agent had the following comment in respect to performance based fees.

"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."

5.1. Design aspects of performance based fees

In this section we discuss the design aspects of performance based fees in terms of size, the payment of bonus and/or malus fees, the reward of innovation as well as the reward of absolute versus relative performance in a multi-agent model.

5.1.1. Size of performance related remuneration

Remuneration models which comprise both base fee and performance based fee components can provide a good balance between certainty and ensuring the agents' "skin is in the game". Hence, once the decision has been made to include a performance based fee component, another challenge is to decide on the proportion of total remuneration which should relate to performance based fees.

Our remuneration survey asked for respondents' views on the percentage of total remuneration which is agreed between the scheme and agent that should be related to performance based fees.

Respondents suggested that, on average, 10% to 20% of total remuneration should relate to performance based fees. However, some agents suggested 50% or greater of total remuneration should be performance related. One respondent commented:

"This needs to be uncapped and provide the incentive for innovation."

A remuneration arrangement with a high proportion of performance based fees could provide a clear incentive for agents to invest into their business through additional infrastructure and/or innovation to help to achieve performance related scheme objectives. However, the flip side to this is that the performance related objectives would need to be clearly defined and outcomes considered durable and robust to allow for this level of performance based remuneration.

5.1.2. Bonus versus malus performance-related remuneration

Our remuneration survey indicated general acceptance of the need for performance based fees. There was also general consensus that there should be both bonus and malus aspects attached to performance. That is, bonus remuneration for good outcomes and penalties for poor outcomes. One survey respondent highlighted the importance of the malus component as follows:

"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…"

However, this view was not unanimous with one scheme respondent commenting that only upside bonus should be performance related and any downside should only be related to

"*failure to meet basic KPI's (hygiene)*".

Following our survey feedback, one aspect which may be worth considering is a variation to the malus concept, whereby instead of a penalty fee for poor outcomes, a provision is made for the clawback of bonus fees in future periods if the achievement of Key Performance Indicators ("KPIs") is not sustained.

Using a simple KPI where agents are rewarded for higher (than target) numbers of claim finalisations as an example, agents may be encouraged to game the system by prematurely finalising claims without any malus component in place. A clawback of the bonus fees paid to agents in the past if there were significant numbers of claims reopening in future periods could act as a deterrent to such adverse behaviour.

5.1.3. Rewarding innovation that leads to scheme outcomes

Innovation by agents which improve scheme outcomes can be rewarded and promoted via appropriately sized performance based fees.

A small performance based fee component may discourage the agents to make innovations which benefit the scheme in the long run. This risk is highlighted by one agent's response:

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

Another possible avenue to reward innovation is to establish a pool of funds with which agents may present business cases for innovative initiatives. Payments could be paid from this innovation pool based on agreed scheme outcome milestones. This could be considered a type of performance based fee to encourage alternative approaches to help achieve scheme objectives.

5.1.4. Rewarding absolute or relative performance in multi agent models

In a multi agent model, KPIs may be set up by comparing relative performance of agents against the scheme or by measuring actual performance against pre-defined benchmarks.

An example of an absolute performance KPI may be the achievement of a 60% loss ratio with performance related bonus for achievement of lower loss ratios. An example of a relative performance measure may be achieving the average scheme loss ratio with bonus for achievement of a lower loss ratio than the scheme average.

Allowance for relative performance between the agents may promote healthy competition between agents which may lead to better outcomes for the scheme. Better performers are rewarded with higher remuneration and the poorer performers are penalised with lower remuneration and/or a potential discontinuation to their contract.

A agent also put forward the following views on relative versus absolute performance from our remuneration survey:

"Both relative and absolute performance should be assessed – for example in a GFC type situation all agents may perform poorly on Return To Work but the best should still be rewarded. "

Finding the right balance between relative and absolute performance can be difficult, especially where the performance of agents is very different. Setting relative targets for poorer performing agents may disincentivise these agents from the beginning if poorly designed.

It is perhaps easier to incentivise agents using relative measures in a changing environment such as that found in accident compensation. A good example of this is where there is a period of significant legislative change and it is therefore unclear what absolute performance targets to set.

5.2. Principles in the construction of performance based fee measures

Over and above the principles discussed in Section 3, in our opinion, the following principles should be applied to ensure the effectiveness of the design of a performance based fees component:

- In line with the basic risk and reward principles, the size of performance based fees should be commensurate with the risk that the agents undertake to achieve specific outcomes.

- To be fair to the agents, the level of performance based fees that they receive should be commensurate with their contribution to the scheme outcomes.

- The agents should feel like they are receiving a reasonable return for the costs of implementing their initiatives. This is important to promote innovation as discussed previously in Section 5.1.3.

- The agents should be able to significantly influence the cost associated with the KPI they are being evaluated against. That is, all impacts of fortuitous or adverse events should be removed and the agents should receive no reward or penalty where they cannot reasonably demonstrate influence over the scheme outcomes.

  Examples of situations which may be outside the control of agents are: significant legislative reforms, changing economic environment, significant legal precedents and changes in assessment valuation methodology.

- Agents should trust the performance measure and this may be achieved by agents providing input into the design of the incentive or KPI measure.

- The form of performance based fee should be tested against misuse.

  For example, if remuneration is related to the number of claims handled, then there may be little incentive to reduce the overall number of claims through preventative measures. This can be offset by linking remuneration to other things such as incentivising the agents to minimise claims costs by benchmarking to target loss ratios.

- Consideration needs to be given to the long term nature of scheme outcomes as discussed in Section 3.6.1. However, this can be challenging because of the pressure to reflect favourable outcomes through increased remuneration as soon as possible. The tension between the short and longer term view in the reward of performance based fees may imply that a mix of both short and long term incentive KPI measures is required in practice.

Our remuneration survey indicated a strong preference for KPI measures that measured performance for periods of longer than 1 year. In the context of accident compensation schemes where long term outcomes are very important, this makes intuitive sense as initiatives may take a number of years before they can be effectively implemented, managed and provide tangible benefits.

- From the SMART perspective, thresholds should not be too difficult nor too easy to achieve.

  - Thought needs to be given in a multi agent model about how to construct relative targets. It may be that different agents have different targets depending on their current performance and/or their profile of business / claims.

  - KPI targets that are either too high or too low may disincentivise agents to perform optimally.

  - In multi agent models consideration should be given to the agent's position in hierarchy of agent performance and the distance to the market leader if KPI targets are being set.

5.3. Development and management of KPIs

In performance based fee arrangements, the agents will be assessed and remunerated based on the specified outcome measures. These measures are essentially KPIs that the agents are subject to under the term of the contract.

Setting the right KPIs will ensure that the agents will be incentivised to achieve the outcomes intended under the performance based fee component. In this section, we discuss the important elements of KPIs, the use of KPIs to influence behaviours, the cost/benefit analysis and the applicable considerations in the implementation of KPIs.

5.3.1. Important Elements of KPIs

Our remuneration survey asked questions around the important elements of KPIs in performance based fee arrangements. Respondents were asked to rate each KPI factor on a scale from 1 to 10 with 1 representing least important and 10 representing most important. A summary of the respondents' feedback are given in Appendix B.

While there were a range of views, there was a general agreement between the scheme and the agents that the following elements are important (i.e. average rating greater than 8).

- **KPIS should be related to scheme's financial objectives.**
- **Performance based remuneration should be timely and made as close to the date of assessment as possible.**
- **Absolute performance of individual agents in a multi agent model should be assessed.**

There were also conflicting views between the agents and the scheme with the following elements rated important by the scheme and less so by agents.

- **KPIs should be periodically monitored by the scheme.**
- **Relative performance between agents in a multi agent model should be assessed.**
- **Performance should be assessed over periods longer than 1 year.**

Meanwhile, elements which are rated as important by the agents and less so by the scheme are as follows:

- **KPIs should be able to be objectively assessed by both the scheme and the agent.**
- **Remuneration design should be simple and easy to understand**
- **Adjustments to KPI outcomes should be made for significant external factors outside the control of agents.**

We note that these responses need to be considered in the context of a relatively small sample size and also that individual circumstances of the schemes may mean that there is a different focus on difference aspects of KPIs. Nonetheless, the remuneration survey responses provide some important insights into the views of both schemes and agents.

Some other interesting insights from the survey were contained in the written responses. The commentary highlights the importance of flexibility and practical considerations. For example:

> ***"These are long term agreements - performance needs to be over the long term, but targets etc updated to reflect emerging experience. "***
>
> ***"Timely assessment is ideal but should be viewed in the context of longer term experience. Legislative environment largely determines ideal time frame for assessment."***

5.3.2. Identification of behaviours/outcomes that you want to change

KPIs should be constructed to clearly link into achieving scheme outcomes and KPI's should cover as many scheme outcomes as possible, especially those that may not be performing optimally.

Some common holistic KPI measures that may be used in the development of KPI targets for accident compensation schemes include:

- Loss ratio results defined as the ultimate projected claims cost divided by the total earned premium
- Return to work measures for workers compensation schemes
- Claim finalisation targets
- Decreases in scheme assessed liability
- Claim continuance or utilisation rates
- Incurred cost targets
- Average claim size.

In addition to these holistic measures, thought should be given to areas where specific focus may need to be given. There may be certain parts of the portfolio where trends are progressing adversely or where there are known issues with claim management processes.

It is useful to assess various aspects of the claim outcome process, with key drivers of claim outcomes including:

- *Claim notification* – there may be a reporting lag from the date of injury to the date notified to the scheme

- *Claim screening and initial management* – the initial assessment of the claim is important in identifying significant claims, timely injury management plans, and communication with claimants

- *Liability decision* – ensuring that there is accurate and timely decisions being made to enable early injury intervention and that initial payment is timely

- *Ongoing management* – this considers ongoing review of injury management plans, the timely payment of benefits, and timely assessment and conclusion of permanent impairment (if any)

- *Dispute* – ensuring that documentation is appropriate, sound and lead to suitable dispute decision

- *Litigated claims*– ensure preparation, factual, timely, well prepared.

An understanding of these claim outcomes and areas where outcomes can be improved is important in determining appropriate KPI's. For example there may be significant lags between injury date and notification to the scheme that may be having a detrimental impact on early intervention strategies. KPI's could be constructed to specifically incentivise agents to reducing this time lag.

The basic principle here is to consider where the scheme is performing poorly and develop KPI's to incentivise agents to improve performance.

5.3.3. **Cost-benefit analysis of KPIs**

A cost-benefit analysis should be made in respect to the KPI under a range of different performance scenarios to help in the construction of a KPI measure.

For example, the costs of implementing the KPI would include the bonus (or malus) payable to agents as a result of their performance outcome, the education / communication costs in implementing the KPI measure, monitoring costs and other administrative costs of implementing the KPI.

The benefit outcomes would generally be measured as an improved scheme outcome, quantified as a reduction in scheme costs.

The costs would then be compared to the anticipated benefits of introducing the KPI under a number of different scenarios. The specifications of the KPI measure can then be calibrated to ensure that the level of agent remuneration plus expenses in implementing the KPI measure is commensurate with the scheme outcome benefit.

Consistent with the principle that the agent should share in the favourable or unfavourable results of the scheme to the extent that they have been responsible for the outcome, a decision needs to be made as to the appropriate share to reward the agent. For the incentive to be effective at promoting behavioural changes, the benefits of introducing a KPI should be direct and substantial.

5.3.4. Implementation of KPIs

The implementation of the KPI incentive measure would then require an element of testing. This may take the form of consultations between the scheme and agents to better understand how agent behaviours may change as a result of the incentive and also to get buy in from the agents for the form of the incentive measures.

This process may also help to identify any potential adverse behaviours that may result from the implementation. The testing process should also consider whether the KPI measure could be gamed and if so what consequences this may have and whether it can be refined to account for this.

Consideration also needs to be given to administration and monitoring of the KPI to enable clear communication on progress against targets and the consequences of this progress.

Data quality in the capture of the KPI needs to be robust and definitions need to be clear to enable a high level of trust in the metric and so that they can be monitored regularly.

Consideration should also be given to an appropriate exit strategy should the KPI lose the trust of the agents, either through the constantly changing nature of the accident compensation environment or because agents are not incentivised in the way that was intended.

6. Conclusion

6.1. Final Thoughts

The management of accident compensation business is complex and the outsourcing of claims and policy administration is not a trivial exercise. A well managed outsourced function is imperative for the long term viability of the scheme. Without proper management, the scheme may run the risks of reputation damage and cost blowouts.

Agents, as commercial operations, are driven by their profit and commercial interests. In turn, these priorities are to a large extent influenced by the underlying remuneration managements. Intuitively, you generally get what you pay for, which highlights the importance of a well designed and thought through remuneration model.

While basic principles such as simplicity and clarity are important, a successful remuneration arrangement is fundamentally one that balances the scheme's and the agent's objectives. Striking the balance is essential but delicate given the potential conflicting objectives that exist between the scheme and the agents and the challenges within accident compensation schemes.

Incentives such as competitive tender, quality gates and performance based fees can provide for better alignment of interests by ensuring that the agents "skin is in the game". However, this will need to be balanced against the fairness of the outcome to the scheme and the agents. Careful consideration will therefore need to be given to what constitutes an adequate level of remuneration to the agents.

Flexibility, on the other hand, is important to ensure that the remuneration arrangement continues to be relevant in the context of the constantly changing environment. This is especially important given the multi-year nature of the contractual relationship between the scheme and the agents.

6.2. Summary

Remuneration arrangements can be utilised to achieve a balanced outcome between the scheme and the agents. In reality, it is unlikely and potentially impractical for one remuneration arrangement to address all areas of conflicting objectives and challenges. Therefore, it is important that it is viewed as a means to an end, rather than an all encompassing solution.

An enduring partnership between the scheme and the agents can only be achieved if both parties develop an appreciation of the challenges that present themselves throughout the term of the contract as well as a willingness to finding a middle ground that strikes the best balance between both parties.

7. Acknowledgements

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Appendix A – Remuneration Survey

pwc

Remuneration Model Survey

PwC is writing a paper on remuneration models in the context of outsourcing claims and other functions within accident compensation schemes. We will also be putting together a presentation for the upcoming 2013 Injury Schemes Seminar. The title of the paper is "Remuneration Models: Achieving a Balanced Outcome between the Scheme and External Service Providers". In the paper, we will discuss the value of outsourcing specific functions to external 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 current 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 this 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 ten 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 pwc is 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 incentivisation has in the design of scheme operating models.

Please return the completed survey to:

Email: grace.s.ng@au.pwc.com

Fax: 02 8286 2791

Address: Attn: Grace Ng
PricewaterhouseCooper
201 Sussex St
GPO Box 2650
Sydney NSW 1171

Survey Questions

Respondent Profile

1. Please tick the relevant profile.

   ☐ Scheme

   ☐ Agent

2. Which of the following functions do you either **outsource** or do you **manage** in an outsourcing arrangement?
   (*Please tick all that is relevant.)*

   ☐ Claims Management

   ☐ Premiums collection

   ☐ Underwriting and pricing of policies

   ☐ Reinsurance placement

   ☐ Risk management

   ☐ Other. Please specify in the text box below

Please provide any relevant comments

Remuneration Model Design

3. The length of outsourcing contracts often run over a period that is longer than one year to enable agent innovation and agent investment in appropriate infrastructure. What is your view in terms of an appropriate length of the outsourcing contract?

☐ year(s)

Please provide any relevant comments

4. What is your preference in terms of how the remuneration for the agent is set?

☐ Fixed by the scheme at the start of the contract. That is, the scheme will specify the parameters and rules which will form the basis of the agent's remuneration.

☐ Competitive tender by agents. That is, the contract will be awarded to the agents who offer the best combination in terms of fees and services provided.

☐ Through negotiations between the scheme and the agent over the tender process.

Please provide any relevant comments

5. What do you think is an adequate level of total remuneration for the agent?

☐ % margin above expenses of running the outsourced function (profit margin)

☐ % return on capital required to support the business

☐ Other. Please specify in the text box below.

Please provide any relevant comments

6. What do you think is the appropriate level of involvement of the scheme in the outsourcing arrangement?

☐ Hands-off. Leave the management of outsourced function completely to the agents.

☐ Active participation in the management of outsourced functions.

☐ Regular monitoring and provide feedback when performance falls below acceptable thresholds.

Please provide any relevant comments

7. Should there be a performance based component for remuneration?

☐ No performance based fee component. The agreed (base) remuneration will be paid subject to the agent meeting the agreed contractual quality thresholds.

☐ Base remuneration with a bonus and/or malus performance based fee component. This implies that there may be additional fee payable if measured outcome is above target and/or penalties attached if the measured outcome is below target.

Please provide any relevant comments

8. Please provide any other comments which you see relevant in the context of remuneration model design.

Please provide any relevant comments

Performance Based Fees

9. If you think that there should be a performance based fee component, what should this component cover?

   ☐ N/A.

   ☐ Base remuneration with both a bonus and malus performance based fee component. This implies that there will be both penalties attached if the measured outcome is below target, and potential upside if the measure outcome is above target.

   ☐ Base remuneration with bonus only performance based fee component. This implies that there will be no penalties attached if the measured outcome is below target, but potential upside if the measure outcome is above target.

   ☐ Base remuneration with malus only performance based fee component. This implies that there will be penalties attached if the measured outcome is below target, but no potential upside if the measure outcome is above target.

Please provide any relevant comments

10. What percentage of the total remuneration which is agreed between the scheme and the agent should be related to performance based fees.
    (For example if total remuneration is $100, and performance based fees make up 10% of total remuneration, the agent will be paid a base fee of $90 with the remaining $10 subject to the agent's performance.)

    ☐ %

Please provide any relevant comments

11. A performance based remuneration model will often have a number of Key Performance Indicators (KPI's) to assess the performance of an agent. In the context of a remuneration model with a performance based fee component, please rank the following factors in terms of importance for performance based fees?

(*1 - least important, … , 10 – most important)*

	1	**2**	**3**	**4**	**5**	**6**	**7**	**8**	**9**	**10**
Performance based remuneration should be timely and made as close of the date of assessment as possible	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐
KPI's should be able to be objectively assessed by both the scheme and agent	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐
KPI results should be calculated independently and objectively from the scheme and agent	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐
KPI's should relate to scheme non-financial objectives	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐
KPI's should relate to scheme financial objectives	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐
KPIs should be periodically monitored by the scheme for the agents	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐
Relative performance between agents in a multi-agent model should be assessed	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐
Absolute performance of individual agents in a multi-agent model should be assessed	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐
KPI's should be constructed to minimise risks of gaming	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐
Remuneration design should be simple and easy to understand	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐
Adjustments to KPI outcomes should be made for significant external factors outside the control of agents	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐
Remuneration should reflect efforts made by the agent (regardless of outcome)	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐
Performance should be assessed over a 1 year period	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐
Performance should be assessed over periods longer than 1 year	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐

Please provide any relevant comments

Appendix B – Survey Response Summary – KPI Factors

The table below summarises the feedback from question 11 of our remuneration survey whereby the respondents were asked to rate each KPI factor on a scale from 1 to 10 with 1 representing least important and 10 representing most important.

KPI Factor	Scheme Average	Scheme Agent Average	Scheme Rank	Scheme Agent Rank
Performance based remuneration should be timely and made as close to the date of assessment as possible	8.3	8.8	5	2
KPIs should be able to be objectively assessed by both the scheme and scheme agent	5.0	8.7	10	3
KPI results should be calculated independently and objectively from the scheme and scheme agent	4.7	5.3	12	12
KPIs should relate to scheme non-financial objectives	5.3	5.7	9	11
KPIs should relate to scheme financial objectives	9.7	7.8	1	5
KPIs should be periodically monitored by the scheme	8.7	7.2	4	7
Relative performance between scheme agents in a multi agent model should be assessed	9.7	6.9	1	9
Absolute performance of individual scheme agents in a multi agent model should be assessed	9.0	7.8	3	5
KPIs should be constructed to minimise risks of gaming	7.3	7.1	7	8
Remuneration design should be simple and easy to understand	6.7	9.0	8	1
Adjustments to KPI outcomes should be made for significant external factors outside the control of scheme agents	5.0	8.1	10	4
Remuneration should reflect efforts made by the scheme agent (regardless of outcome)	4.0	4.6	13	13
Performance should be assessed over a 1 year period	3.3	4.4	14	14
Performance should be assessed over periods longer than 1 year	8.0	6.6	6	10