



**Actuaries
Institute**

The Commission of Audit, Federal Budget and Insurance

Jamie Reid, Finity Consulting
Brisbane, June 2014

Purpose

About the Commission of Audit

- Review of the performance, functions and roles of the Commonwealth government
- The question:
 - How to achieve a Federal budget surplus of 1% of GDP by 2024?
- The answer:
 - Some of the work of government needs to cease, reduce or transfer to the private sector

The Detail

- 86 recommendations
- 1,200 page report
- Suggestions for every area of government, including insurance



Towards Responsible Government

The Report of the
National Commission of Audit

Five recommendations for insurers

ARPC

- Abolish Australian Reinsurance Pool Corporation

NDIS

- Slow down roll-out of National Disability Insurance Scheme

Health insurance

- Significant reforms

Comcare

- Outsourcing and private sector underwriting

Medical
Indemnity

- Reduce subsidies

Other Insurance Comments

Insurance Taxes

- Harm Australia's growth prospects

Defence Homes

- Abolish Defence Service Homes Insurance

Export Insurance

- Abolish Export Finance and Insurance Corporation

Deposit Bonds

- Aged care accommodation bonds guaranteed by insurers not government

Disaster Relief

- Reform, individuals should insure

Travel Insurance

- Covers cost of consular assistance

Abolish APRC – What the Commission says

- Established as a temporary measure to ensure terrorism insurance was available following 2011 terrorist attacks
- “With continued recovery in the insurance markets, there is scope for a gradual Commonwealth exit over the coming years”



Abolish ARPC – Will it happen?

- Unlikely in the short term
 - No sign of capacity returning to automatically include terrorism cover in property policies
 - As an aside, ARPC has paid government \$700 million of dividends in recent years
- Federal Budget update
 - Replaced \$375 m of forecast dividends with \$450 m fees over next four years (cost of \$10 bn government guarantee)
 - Funding to develop options on the future of ARPC

NDIS Slow Down – What the Commission says

- Strong support, but suggest 3 year delay to learn from trials
- Budget control to ensure long term viability
- Simplify reporting arrangements – CEO reporting to Minister
- Contestable service delivery models
- Continue to seek roll-out of National Injury Insurance Scheme (NIIS) to control NDIS costs

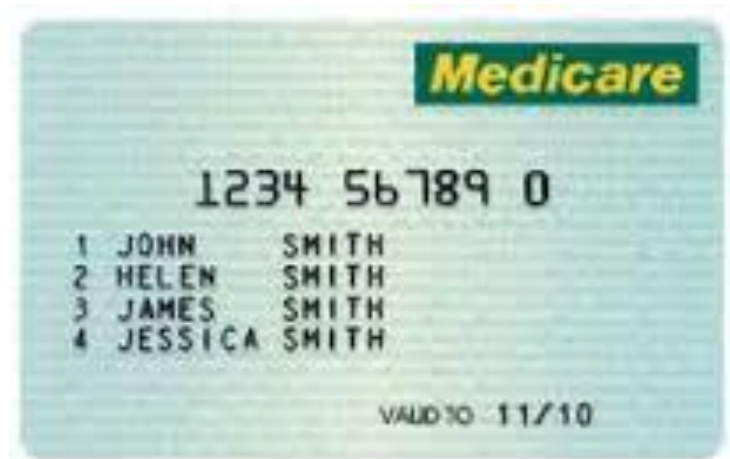


NDIS Slow-Down – Good idea?

- Clearly risks associated with rapid implementation – NDIS has itself identified these
- Work is underway with the current timeframe, which has focussed attention on NDIS
 - Would be disappointing to extend full rollout beyond 2018/19
- On governance, appropriate government should be able to exercise control over significant spending programs
- Federal Budget update
 - No mention

PHI Reform – What the Commission says

- “There is a strong and vibrant health insurance market in Australia”
- “Governments should not act as the insurer of first resort”
- Insurers to become “genuine health care partners”



PHI Reform – In Detail

- **Mandatory insurance** for high earners
- **Premiums set by market** not by Minister
- Funds allowed to **cover primary care**
- Partial **risk rating**, eg, smoker loadings
- Regulator **PHIAC abolished**
- Not sure on premium rebates
- Changes to product rules, risk equalisation and more

PHI Reform – Will It Happen?

- Increasing expensive for government to be “insurer of first resort”
- Potential to transform the role of private insurers in financing Australia’s healthcare
 - Even if only some of the proposals are adopted
- Significant reform an opportunity for insurers – but not without risks
- Federal Budget update
 - Tougher means testing of premium rebates
 - PHIAC abolished by July 2015 (to APRA and elsewhere)

Comcare – What the Commission says

- Private sector underwriting and outsourced claims management to be considered, if this were to deliver savings
- Efficient to consolidate some functions of Comcare, Seacare, Safe Work Australia and other similar bodies



Australian Government

Comcare

Comcare changes – Good idea?

- Pros and cons of government vs. private sector has been reviewed many times
 - In our view, no clear winner for accident compensation
- Whether public or private, workers' comp schemes suffer periods of financial stress from time to time
- Federal Budget update
 - No mention

Medical Indeminty – What the Commission says

- Premium support scheme provides a subsidy if premiums exceed 7.5% of income (2000 doctors)
- High cost claim scheme pays 50% of eligible claims in excess of \$300k
- Both should be wound back over time



Medical Indeminty changes – Good idea?

- Since measures were introduced, industry has a stronger capital position and average doctor premiums have fallen
- While arrangements are not expensive (\$45 m per year), reasonable to review
- HCCS reduces average premiums by 10%. At a minimum, hard to argue against indexing \$300k threshold
- Consider whether some doctors require premium subsidies, eg, in rural areas
- Federal Budget update
 - No mention



Consultants & Actuaries

Jamie Reid

Tel: +61 2 8252 3309

Mobile: +61 4 3756 2290

www.finity.com.au

