



15 July 2011

Department of Labour  
Attention ACC discussion  
P O Box 3075  
Wellington 6140

Dear Sir

**Increasing choice in workplace accident compensation**

We refer to the discussion document on options for extending the Accredited Employers Programme and introducing choice in the Work Account.

The attached submission is made by the New Zealand Society of Actuaries, the professional body representing Actuaries practising in New Zealand. The New Zealand Society of Actuaries contributes to debate from the perspective of the public interest and from a professional viewpoint, rather than the commercial interests of institutions that employ or contract actuaries.

We have attached as Appendix A to our submission some information about the actuarial profession in this country and its work.

For further information regarding our submission please contact the undersigned.

Yours faithfully

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## **Submission on increasing choice in workplace accident compensation**

This submission is made by the New Zealand Society of Actuaries (“NZSA”, “the Society”) in relation to the discussion document on options for extending the Accredited Employers Programme and introducing the choice in the Work Account.

### **Introduction**

The Society would like to contribute to some of the questions raised in the discussion document. We recognise that the document presents a high level introduction and perspective to some proposed changes and at this stage there is not a significant technical component on which to offer comments.

The Society itself has no view on the matter of whether the Accredited Employer Programme is widened and the ACC Work Account opened up to competition from private sector insurers.

When considering the changes proposed we note the importance of:

- there continuing to be mechanisms in place to monitor the health and safety of employees
- there is proper monitoring of injury rehabilitation and the provision of the correct benefits to injured workers and
- an effective disputes resolution service is in place.

The document covers two proposals namely:

- Extending the Accredited Employers Programme from 1 April 2012
- Choice in the Work Account.

### **Accredited Employers Programme**

Response to questions 3 and 12

The proposal to extend the AEP will see the current sole insurer, the ACC Corporation; offer a greater variety of terms to employers who wish to take direct responsibility for the cost of their work accident claims. In principle we consider this a positive development allowing employers to decide themselves on how much insurance cover they wish to purchase based on their assessment of their risk appetite. We similarly see no reason why a range of claims excess options outside the AEP should not be permitted.

Response to question 5

We note that the PDP provides a limited self-insurance option and it could be made more attractive to employers if the premium that is paid to ACC to cover future claim cost post handback allowed for the employer’s past claims experience.

Response to question 8



We believe co-operatives and groups should be able to enter the AEP so long as the group can meet the financial and solvency criteria for entry and permanence, manage the arrangement in a cost efficient manner, and can demonstrate that they have an agreement for sharing the ongoing cost of claims amongst the group should any member of the group fail or withdraw.

### **Choice in the Work Account**

We comment that if this proposal is implemented it will work best if the ACC Corporation entity providing the cover is treated in exactly the same manner as any insurer who wishes to enter the market. This would include the need to comply with the Insurance (Prudential Supervision) Act 2010 (IPSA) in regard to solvency (see further comments in Response to question 18 below).

Response to questions 15 and 16

All the insurers will need to have access to the same data and a data bank will need to be established. This should comprise all the history that relates to the Work Account only as we cannot see the need for insurers to have access to any other data.

The data would be held by the market regulator although in the short term we recognise that data will need to be released by the ACC Corporation to all insurers who wish to enter the market. The data will be required for premium rating, claims reserving and assessing the level of capital that the insurers consider will be required for underwriting this risk.

The historical data set held by the Regulator will need to be updated in the future in the same manner as data in respect of new exposure to risk and claims.

We understand the Department of Statistics already receives regular data sets off the ACC Corporation and we presume this will continue and amended to incorporate the data from all insurers. We note here that for the life industry the Society of Actuaries on a regular basis contract Actuarial consultants with the required skills set in order to review the mortality statistics for the companies in the market. It may be possible to outsource complete equivalent reviews for the Accident Insurance providers.

We see value in the general accessibility of data to the wider public on injury statistics.

Response to question 18

The Insurance (Prudential Supervision) Act 2010 (IPSA) includes a solvency standard all insurers need to comply with if they write business in New Zealand. This standard has been subject to on-going discussion and we would expect that once finalised it will be applicable for accident insurance. It will require relatively small amendments to cover the inclusion of Accident Insurance business. We agree that an insurer will need to be fully licensed ahead of the IPSA deadline to enter the market on 1 October 2012.

Given the long tail nature of the business written, it's compulsory features and the third party nature of the contract, the regulator has a higher duty of care than any other type of insurance business. There is an argument that it could be written in a separate statutory fund to other general insurance business (ie similar to the practice for life insurance companies).



Despite the new solvency regime there will always be a risk of an insurer becoming insolvent and we acknowledge that in such an event any outstanding liability will need to be met by a levy on employers which will be collected by other insurers in the market in order to provide continuity of cover to employees. Whether the on-going claims are best managed by the ACC Corporation entity or another insurer is debatable. We note that before an insurer became insolvent we would expect that other insurers maybe expected to look for market solutions to the problem and that the RBNZ would follow the normal process for such an event.

We considered whether an alternative to a post event levy could apply namely whether this could be funded for in advance in the same way as the FDIC does for US banks.

Response to question 19

While recognising the need for the market regulator and the role envisaged for it we comment that if these roles can be provided by existing agencies then this should be the case.

Response to question 25

Considering gradual process claims the current system sees an allocation of the costs depending on the exposure of the insurer to the time over which the injury is considered to have arisen. While this system could continue we see no reason why the alternative of making the current insurer responsible for the total cost of such injuries. While this system will be simpler to administer it has also some shortcomings such as:

- late onset claims reported after retirement age will fall back to an account other than the new Work account, and
- employers with poor gradual process claims are likely to find it difficult or expensive to find cover but have no ability to change health and safety processes from many years ago.

A new account will need to be established for the management of the claims existing prior to the introduction of competition to the Work Account. We would expect that the same approach as taken in 1999 will adopted for this account (ie a separate risk rated levy will be charged for an agreed period).



### The Actuarial Profession in New Zealand

Actuaries are experts in assessing the financial impact of tomorrow's uncertain events. They enable financial decisions to be made with more confidence by analysing the past, modeling the future, assessing the risks involved and communicating what the results mean in financial terms.

Actuaries provide businesses with valuable information with which to make secure, long-term strategic decisions, as well as providing practical solutions to problems involving the impact of uncertain events. Our traditional areas of work are insurance and superannuation.

On 1 October 2010 the NZ Society of Actuaries had 294 members, including 108 Fellows working in NZ and 53 Fellows resident overseas. The Society also has 12 Associate/Ordinary members, 105 student members and a few retired members. All members are required to adhere to standards designed to ensure competence, impartiality and the highest standard of business ethics.

NZSA is not itself an examining body. The FNZSA qualification is obtained by:

- (1) Passing professional exams and meeting the experience requirements of an approved examining body (e.g. the Institute of Actuaries of Australia or the UK Actuarial Profession);
- (2) Being resident in New Zealand or doing work that relates to New Zealand;
- (3) Meeting ongoing continuing professional development requirements;
- (4) Maintaining the highest standard of business ethics as set out in our code of professional conduct and adhering to mandatory practice standards.

Typically, it takes about 7 years of part-time post-graduate study to qualify as an actuary, generally undertaken during study leave granted by employers. Study courses provide a thorough grounding for the complex financial analysis that members of the profession are required to undertake. A quicker route to qualification is available overseas via full-time university courses.

NZSA members are governed by a code of conduct and relevant standards designed to protect the public interest. Our members have a collective responsibility for the maintenance of standards. On noting a potential breach by another member, they are expected to discuss that matter with the other member and, if it cannot be easily rectified, to bring it to the attention of the Society to take action. NZSA is a full member of the International Actuarial Association and meets the international benchmarks for qualification, standards, disciplinary process and continuing professional development.

Professional standards are drafted and subsequently maintained by NZSA practice committees, comprising experienced actuaries specialising in a practice area. The standards are reviewed by a Professional Standards Committee and by the Society's Council. Draft standards are circulated to members as Discussion Drafts and Exposure Drafts before being adopted. The process allows standards to be updated to meet changing circumstances and provides for scrutiny and robust debate during drafting.