

Public to Private – and Making it Work

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Today's session



- Background
- The nature of the beast
- Pathways to a competitive market
- Prudential supervision
- Conclusions - and controversy?



Background



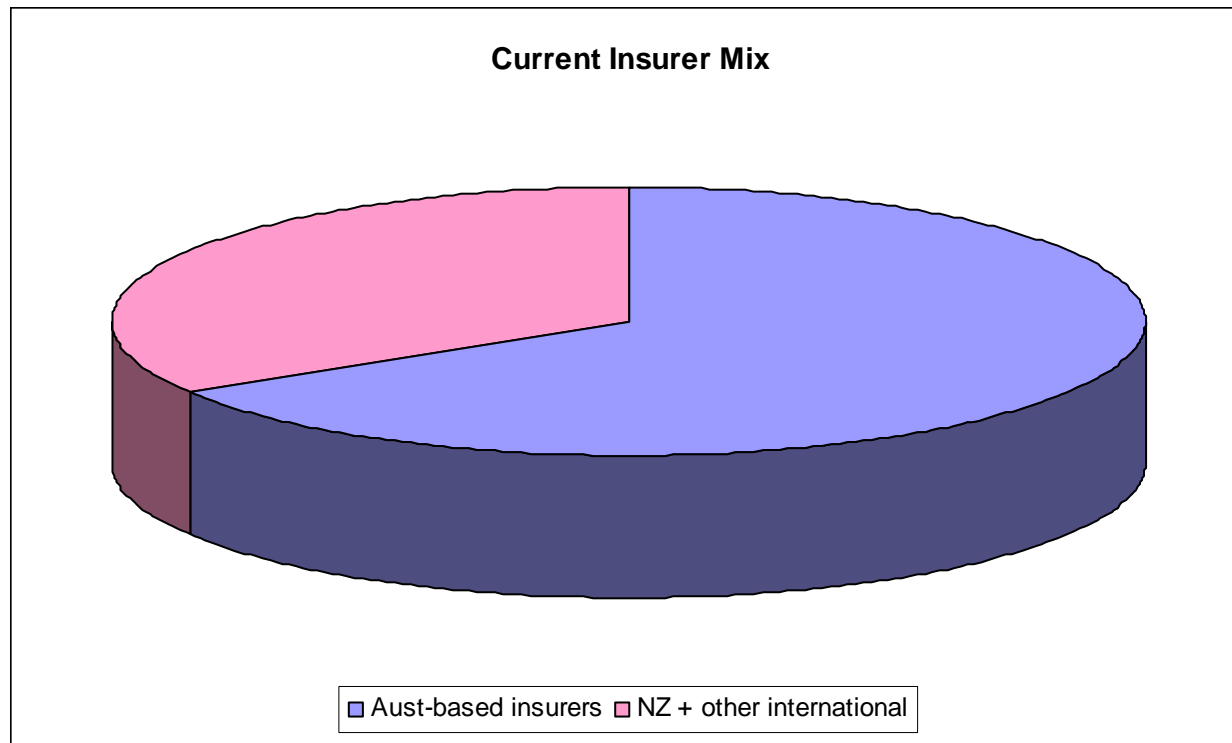
Politics and Policy

- National Party has won election
- Their policy:
 - ▶ explicitly supports competition/choice for Work Account only
 - ▶ anticipates a “full stock-take” of ACC scheme
- Others believe differently...



Current NZ GI Market

- Mostly short tail business



Why listen to us?



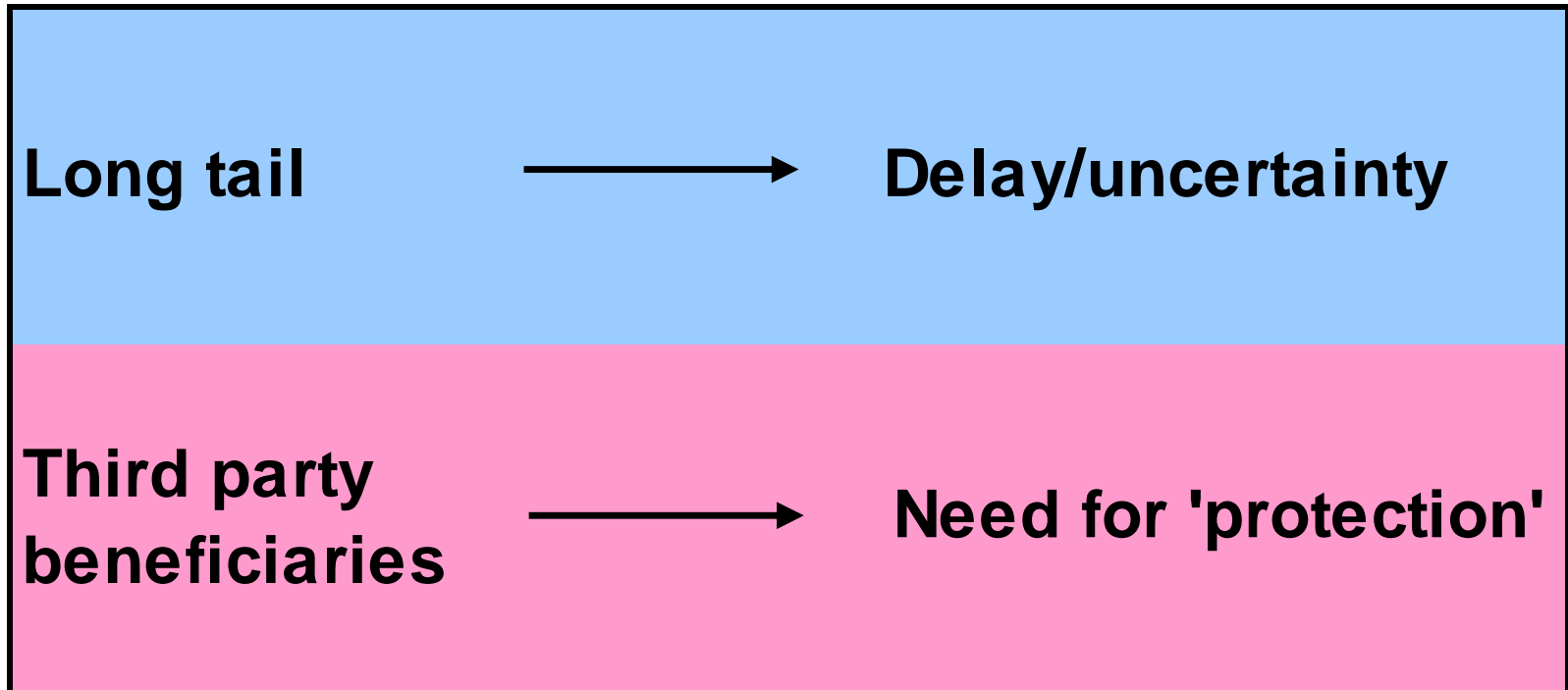
- Experience of Aust accident comp schemes
- Practical comments on path to competition
- Very familiar with Aust market and regulation
- Discussions with Aust insurers about NZ market

- Not NZ 'experts'!



The Nature of the Beast





Australian response

- State-based schemes (not APRA-regulated)
- **Regulators** responsible for
 - ▶ scheme delivery
 - ▶ pricing - usually
 - ▶ prudential management
- Private insurers
 - ▶ usually don't underwrite
 - ▶ may act as claims agents
 - ▶ **are** supervised by APRA
- Assume NZ would need a regulator in privatised environment



Australian schemes – workers' comp



	Fault	Insurers manage claims?	Insurers underwrite?	Pricing
NSW	No fault	Yes (agents)	No	Scheme
Vic	No fault	Yes (agents)	No	Scheme
Qld	No fault	No	No	Scheme
SA	No fault	Yes (agent)	No	Scheme
WA	No fault	Yes	Yes	Insurers
Tas	No fault	Yes	Yes	Insurers
Comcare	No fault	No	No	Scheme

- Large employers may self-insure



Australian schemes – MVBI

	Fault	Insurers manage claims?	Insurers underwrite?	Pricing
NSW	Fault ¹	Yes	Yes	Insurers ²
Vic	No fault	No	No	Scheme
Qld	Fault	Yes	Yes	Insurers ²
SA	Fault	Yes (agent)	No	Scheme
WA	Fault	No	No	Scheme
Tas	No fault	No	No	Scheme

¹ No fault for children and lifetime care

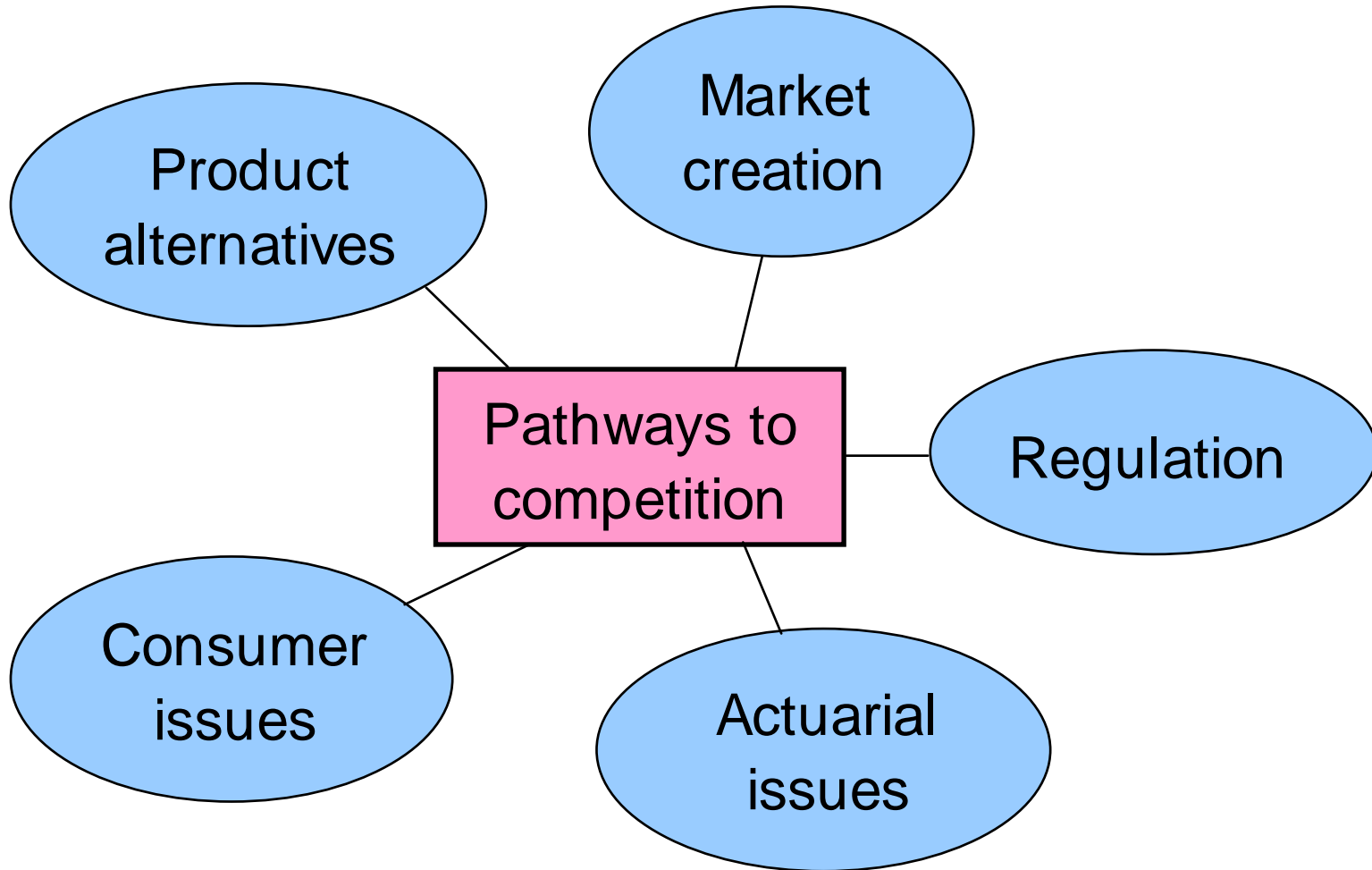
² Within regulated limits



Pathways to a Competitive Market



The big issues



Product alternatives

- 'Benefits' for claimants
 - ▶ no call for wholesale review
- Maintain universal no fault cover?
 - ▶ which insurer pays?
 - ▶ guaranteed insurability
- Restrictions on premium structures
 - ▶ standard products/standard rates?
- Maintain streamlined system for medical accounts?
 - ▶ use a 'clearing house'



Market creation (1)

- Insurers take underwriting risk (straight away)?
- Will insurers see opportunities for profitable business?
- Initial market shares
 - ▶ allocation, auction, unregulated?
- Compulsory acceptance?
 - ▶ or insurer of last resort?
- Restrictions on distribution methods/commission payments?



Market creation (2)

- Enough capital to absorb privatised business?
 - ▶ yes
- Could RI market absorb new business”
 - ▶ yes
- Who runs off tail of ACC claims?
- Would ACC stay on as player?



Consumer issues = market conduct



- Maintenance of
 - ▶ no fault cover
 - ▶ cover for non-work injuries
 - ▶ cover outside NZ
- Loss of cover due to uninsured employers, vehicles...
- Price increases
 - ▶ general – due to profit margins/distribution costs
 - ▶ at individual insured level
- Gaps and overlaps between products (MV & WC)
- Delays to claim acceptance/payment
- Dealing with claim disputes

- All point to need for **regulator**



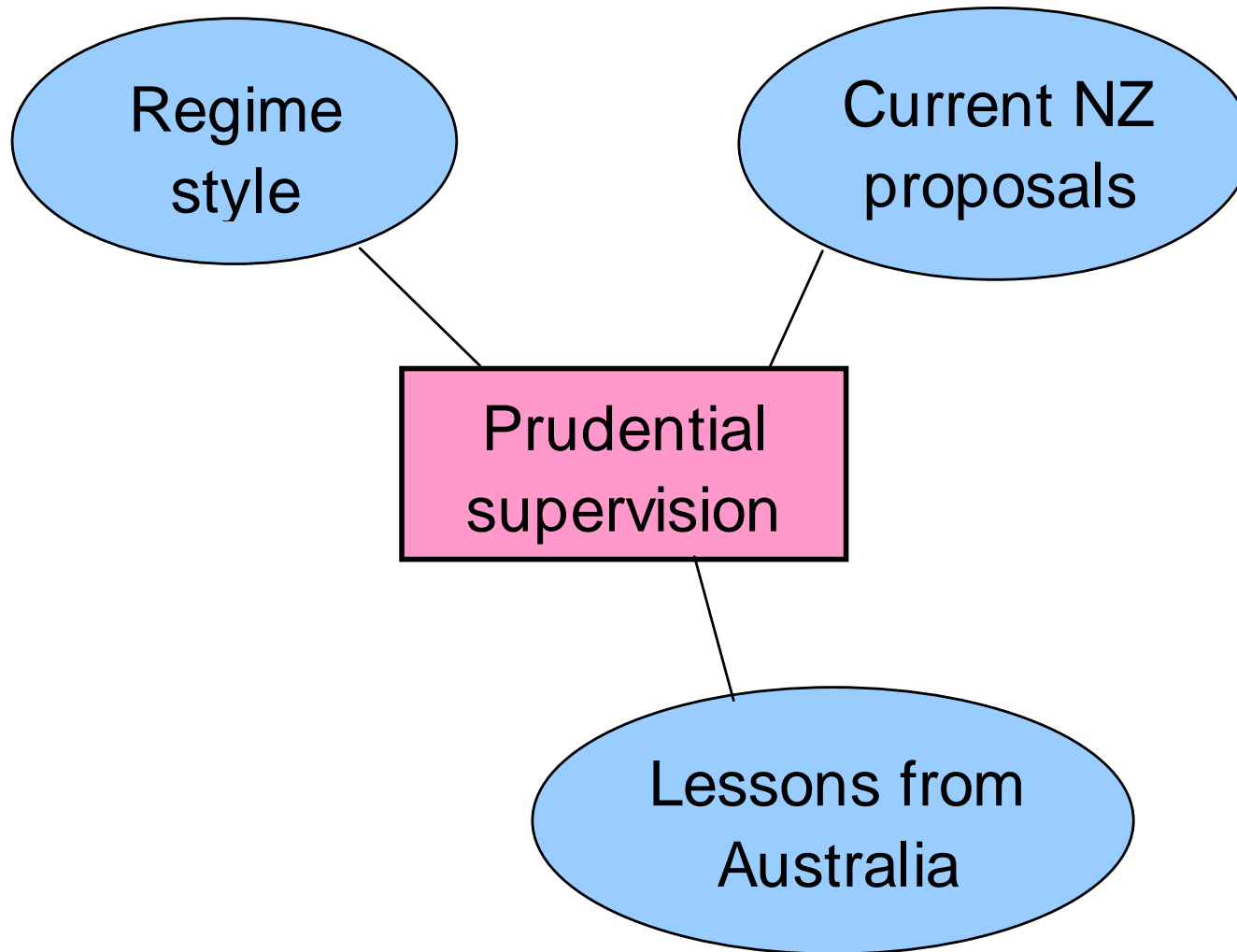
- Actuarial role
 - ▶ valuation, pricing, assessment of financial condition?
 - ▶ ‘Appointed Actuary’ role?
 - ▶ in-house and external?
- Enough actuaries with long tail experience?
- Availability of relevant historical experience/data
- NZSA standards – valuation, pricing



Prudential Supervision



Our topics



- Two pillars:

APRA	Safety of institutions Licensing, solvency, prudential
ASIC	Market conduct Interactions with consumers

- APRA's supervisory role in GI:
 - ▶ Insurance Act 1973
 - ▶ Prudential standards (currently 15)
- Bodily injury insurance – specialist regulators regulate market conduct: complexity



Regime style – prudential regulation



Complexity

- + More info for regulator
- + Lower risk of failure

Simplicity

- + Lower cost

Aust

NZ proposals

Prescriptive

Principles-based

- + Focus on 'spirit' of requirements
- Varying interpretations



Current NZ proposals



- Light-handed approach
- Minimal reporting requirements
- Competitively neutral



NZ vs Australia – Capital/Financial



Area	RBNZ Proposal	Aust (APRA)
Absolute min capital	\$2 million	\$5 million
Solvency standards	Will be in NZSA standards	In APRA's standards
Min capital calc	Not yet known	Prescribed risk-based capital At least 20% buffer over min
Capital restrictions	Not specified yet	Limits on types of capital + reductions
Financial strength rating	Mandatory	No requirement
Provisions	Not yet specified	OSC + PL (replaces UPP) Allowance for BBNI Risk margin based on 75% PoS
FCR	Not yet specified	Annual FCR by AA



NZ vs Australia – Mgmt/operational



Area	RBNZ Proposal	Aust (APRA)
Non-insurance activities + CPE	Restrictions and exclusions	Largely dealt with in capital requirements
Reporting	Annual financial statements Reduced form 6-monthly No proposal for regular meetings	Quarterly returns with full B/S, P&L, and capital adequacy assessment APRA meets annually with each insurer.
Monitoring	RBNZ will focus on "risky" insurers	All insurers subject to basic review "Riskier" insurers subject to more in-depth review
Planning and documents	No equivalent requirement	Annual submission of Business Plan, RMS, ReMS
Governance, transactions, distress mgmt	Similar provisions	



NZ vs Australia – Foreign insurers

Area	RBNZ Proposal	Aust (APRA)
Compliance	RBNZ has discretion to accept compliance with home country requirements	All insurers writing Aust business must be authorised by APRA and meet APRA requirements
Rating	Financial strength rating must include consideration of home policyholder preference	n/a
Local assets	No equivalent requirement	Aust assets not available outside Australia until all Aust policyholder liabilities met



The risks for NZ (1)

- Minimal monitoring of long tail business
 - ▶ risks to solvency
 - ▶ consequences for insureds/claimants
- Solvency/capital calcs
 - ▶ can't yet comment
 - ▶ is \$2m buffer enough?
- Reliance on ratings agency ratings
 - ▶ credibility
 - ▶ consumer understanding



The risks for NZ (2)

- OK for 'just any' insurer to write accident insurance? (\$5m premium without rating)
- No specific guidance yet on reinsurance – inwards or outwards
- Reliance on NZSA for solvency standards



Lessons from Australia

- HIH
 - ▶ unprofitable personal injury/liability business
 - ▶ changes to APRA regime incl. FCR
- Complexity of regime:
 - ▶ can't reduce failure risk to zero
 - ▶ hard to 'turn back' once it gets complex
 - ▶ complexity means time and expense
 - ▶ hard to have all rules make sense for all insurers
- Regulator often needs to 'get the story behind the numbers'
- Supervision of foreign entities can be tricky – reinsurers, direct offshore business



Conclusions



Introducing competition

- Privatised accident insurance means:
 - ▶ Regulation needed to protect stakeholders
 - ▶ Strong prudential supervision needed – security of insurers
 - ▶ Strong market conduct regulation needed - doesn't fit with RBNZ mandate
- Path to competition needs well thought out decisions in
 - ▶ Product design
 - ▶ Market creation
 - ▶ Consumer issues
 - ▶ Actuarial issues



Prudential supervision

- NZ model needs to take account of
 - ▶ Unique NZ environment – dominance of OS insurers
 - ▶ Possible privatisation of accident insurance
- Dangers in light-handed approach

- Experience in NZ and elsewhere gives opportunity to minimise mistakes



Discussion

