



26 November 2013

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National Commission of Audit  
PO Box 6022  
Parliament House  
**CANBERRA ACT 2600**

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**RE: THE NATIONAL COMMISSION OF AUDIT**

I refer to the *National Commission of Audit (the Commission)*, which seeks a thorough review of the scope, efficiency and functions of the Commonwealth Government. Suncorp welcomes the opportunity to contribute to the discussion.

The Commission seeks to identify areas of activity currently performed by the Commonwealth where:

- there remains a compelling case for the activity to continue to be undertaken; and
- there is a strong case for continued direct involvement of government, or whether the activity could be undertaken more efficiently by the private sector, not for profit sector, the States or Local Government.

Suncorp considers the federal workers compensation scheme has a vital role in responding to productivity challenges facing Australia. This submission explores the public policy settings needed to respond to this challenge through:

- scheme design principles that deliver the most effective accident compensation scheme;
- the benefits of private underwriting of accident compensation schemes to deliver scheme outcomes and relieve Government of 'long tail' liabilities; and
- the lifting of the moratorium on private sector companies applying to enter the Comcare scheme through the self insurance process.

**The Suncorp Group**

Suncorp Group Limited and its related bodies corporate and subsidiaries (collectively 'Suncorp') offer a range of financial products and services in banking (Suncorp Bank), general insurance, life insurance and superannuation (Suncorp Life) across Australia and New Zealand. Suncorp has over 15,000 employees and relationships with over nine million customers nationally.



Nationally, Suncorp is the largest personal injury insurer. This submission is made on behalf of the Suncorp Commercial Insurance division which operates Suncorp's statutory insurance products, including workers' compensation and compulsory third party (CTP) insurance. Suncorp has over 85 years of personal injury insurance experience, with our Suncorp, AAMI, GIO and Vero brands.

In respect to statutory classes of insurance, our community focused activity is centred on risk management, injury prevention, social participation and quality of care for those injured or with a disability.

We actively support Wheelchair Sports, which encourages individuals back into the community, improving rehabilitation and work capacity. Our long-term association with Youngcare has created housing and support for young people with disability in Queensland and New South Wales. We are also interacting with State Treasuries and providing information for consideration in regard to implementing a National Disability Insurance Scheme (NDIS) and the National Injury Insurance Scheme (NIIS).

Sharing of ideas is part of our collaborative approach, and as Australia's largest personal injury insurer, Suncorp is often asked to undertake research and comment on industrial and societal issues. We also participate in wider industry matters through our involvement with the Insurance Council of Australia and relationships with scheme regulators and State Treasurers.

## Economic Challenges

Arguably, Australia's accident compensation schemes including the federal workers compensation schemes have a vital role to play in the context of ongoing economic challenges facing Australia. *The Intergenerational Report 2010*<sup>1</sup> identifies the ageing population as a key challenge over the next forty years.

Specifically, it is expected that the proportion of working age people is projected to fall, with only 2.7 people of working age to support each Australian aged 65 years and over by 2050 compared to 5 working aged people per aged person currently and 7.5 in 1970.<sup>2</sup>

With the ageing of the population reducing workforce participation, it will be crucial to enhance productivity growth to maintain our overall standard of living nationally. Whilst this is indeed a national issue, it is also incumbent upon all State and Territory Governments to work co-operatively in achieving enhanced productivity growth by ensuring accident compensation schemes nationally are designed to support those injured into early self determination both socially and economically. Indeed the federal schemes should lead the way.

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<sup>1</sup> Australia to 2050: Future Challenges - [http://archive.treasury.gov.au/igr/igr2010/report/pdf/IGR\\_2010.pdf](http://archive.treasury.gov.au/igr/igr2010/report/pdf/IGR_2010.pdf)

<sup>2</sup> Australia to 2050: Future Challenges - at page viii - [http://archive.treasury.gov.au/igr/igr2010/report/pdf/IGR\\_2010.pdf](http://archive.treasury.gov.au/igr/igr2010/report/pdf/IGR_2010.pdf)



The implications of workforce participation rates declining as the ‘baby boomers’ move into retirement, without policy settings reducing the impact include:

- reducing tax revenue base;
- increasing demand on health and welfare services; and
- slowing of economic performance where productivity levels do not increase.

It is in this environment that the economic argument for disability reform is compelling.<sup>3</sup> An objective of a fully implemented NDIS and NIIS is to support individuals becoming self-sufficient both socially and economically. Supporting those who have a disability and have capacity<sup>4</sup> and their carers<sup>5</sup> into the workforce would assist in expanding the tax revenue base, which in turn should assist with productivity growth.

Accident compensation schemes designed to support individuals in becoming self-sufficient both socially and economically in a timely fashion after an injury is also crucial in arresting any decline in workforce participation rates. These considerations form the basis of our comments in this submission.

## Disability Reform

Suncorp supports the NDIS and the NIIS models and the staged implementation of the NDIS. Indeed, the NSW Lifetime Care and Support Scheme (LTCS) is an excellent example of a scheme working well to provide support to people who are catastrophically injured in motor vehicle accidents.

The LTCS, as an ‘insurance based’ model is fully funded with reported net assets of \$600M as at 30 June 2013 up from \$222M in the previous year. The net operating profit was \$377M for the year ending 30 June 2013, an increase from \$118M in the previous year.<sup>6</sup>

Suncorp maintains the view that like the NDIS, underwriting and claims management of catastrophic injuries is best placed outside the private insurance industry. The capital requirements and return on capital obligations for shareholders would be prohibitively expensive for a scheme essentially characterised as an ‘assurance’ as opposed to an ‘insurance’ scheme.

The LTCS, like the NDIS has moved away from a lump sum entitlements system to a system that provides care and support on a *needs basis*, only. In this operating

<sup>3</sup> Productivity Commission – Disability Care and Support, Volume 2, chapter 20 –The benefits of reform - [http://www.pc.gov.au/\\_data/assets/pdf\\_file/0018/111294/23-disability-support-chapter20.pdf](http://www.pc.gov.au/_data/assets/pdf_file/0018/111294/23-disability-support-chapter20.pdf)

<sup>4</sup> The Productivity Commission estimated that implementation of the NDIS, if combined with DSP reform to encourage greater participation, could lead to an increase in employment of people with a disability of some 220,000 by 2050: source: *Future Growth in DSP receipt – not all bad news* - <http://parlinfo.aph.gov.au/parlInfo/search/display/display.w3p;query=Id%3A%22library%2Fprspub%2F2783695%22>

<sup>5</sup> Overall, in 2012, the labour force participation rate for primary carers (42%) and secondary carers (63%) was lower than that for non-carers aged 15 years or more (69%) – Source Australian Bureau of Statistics, 2012 - <http://www.abs.gov.au/ausstats/abs@.nsf/Lookup/F30E84F7209630DCCA257C21000E5120?opendocument>

<sup>6</sup> NSW Government – *Lifetime Care & Support Authority of NSW Annual Report 2012 – 2013* - [http://www.lifetimecare.nsw.gov.au/Annual\\_Reports.aspx](http://www.lifetimecare.nsw.gov.au/Annual_Reports.aspx)



environment, the Government is best placed to allow a long-term, holistic approach in respect of the rehabilitation and care of people with catastrophic disabilities and a centralised scheme underwritten by Government would deliver the best outcome.

The LTCS scheme is aligned with the key objectives of the NIIS. There is an expectation that the NIIS will be fully implemented nationally and the LTCS scheme is a very good model to expand and implement nationally, as the NIIS. The Comcare scheme should access the NIIS, once it is fully implemented.

## Federal Workers Compensation Schemes

The federal workers compensation schemes include the:

- Comcare scheme;
- Seacare scheme;
- Department of Veterans' Affairs scheme (DVA scheme); and
- a number of minor schemes.<sup>7</sup>

The Seacare scheme is privately underwritten by approved insurers. The privately underwritten scheme is fully funded with insurers' financial positions being overseen by the prudential regulator, Australian Prudential Regulation Authority (APRA).

By contrast, the Comcare and the DVA schemes remain government/publically underwritten and managed.<sup>8</sup> Due to differences in reporting requirements, this paper will primarily focus on the Comcare scheme.

In the financial year ending 30 June 2013, Comcare posted an operating loss of \$98M - a significant improvement from the prior financial year in which an operating loss of \$687 million was reported. At 30 June 2013, Comcare had a net liability of \$2.6B with a funding ratio of 64 per cent, as opposed to \$2.4B and a funding ratio of 65 per cent in the previous reporting period.

Premiums are set to rise and need to be stabilised.<sup>9</sup> Suncorp submits that the response should be based on the following principles:

- optimal health outcomes for those who suffer work injuries;

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<sup>7</sup> Commonwealth of Australia (Safe Work Australia) – *Comparison of Workers Compensation Arrangements in Australia and New Zealand*, July 2013, at page 195 -

<http://www.safeworkaustralia.gov.au/sites/SWA/about/Publications/Documents/782/ComparisonWorkersCompensationArrangements2013.pdf>

<sup>8</sup> Commonwealth of Australia (Safe Work Australia) – *Comparison of Workers Compensation Arrangements in Australia and New Zealand*, July 2013, at page 21 -

<http://www.safeworkaustralia.gov.au/sites/SWA/about/Publications/Documents/782/ComparisonWorkersCompensationArrangements2013.pdf>

<sup>9</sup> Australian Government – Safety, Rehabilitation and Compensation Commission – *Comcare – Annual Report 2012 – 2013* – at pages 20, 70 - [http://www.comcare.gov.au/data/assets/pdf\\_file/0003/132627/PUB01\\_2012-13\\_v14webFINAL.pdf](http://www.comcare.gov.au/data/assets/pdf_file/0003/132627/PUB01_2012-13_v14webFINAL.pdf)



- optimal premium levels for the chosen benefits structure, through improving scheme efficiency – that is delivering the greatest proportion of premiums to the injured as possible;
- scheme structure that supports reduced volatility in premium levels over time;
- consistency of administration, benefits and dispute resolution with the NDIS and the NIIS; and
- the ability to target and evaluate scheme performance through a ‘Return on Equity’ scheme measure requirement.

## Benefits of Privatisation

In respect to non-catastrophic workplace injuries, Suncorp is of the view the Comcare scheme would benefit from private underwriting by licensed private insurers. Privatisation drives market outcomes through:

- separation of interests between the regulator, the Government and the regulated activity, and
- more efficient use of capital by private organisations striving to compete for capital, driving greater innovation, service levels, efficiency, and responsiveness to stakeholder needs.

The net economic benefit to Government in privatising accident compensation schemes outside of the NIIS include:

- keeping systemic and investment risks away from Government and placed onto private insurers and claims agents;
- keeping scheme liabilities off the public sector balance sheet and on the private sector balance sheet, protecting public sector net asset position and credit ratings from unforeseen adverse market movements; and
- improving the Government’s capital management strategy by unlocking capital to re-allocate to deployment for economic growth initiatives and other public policy needs.

In economically challenging times (such as the relatively recent Global Financial Crises and the European Debt Crisis) investment income is impacted negatively by low bond yields. This represents a real challenge for ‘long tail’ accident compensation schemes where investment income is reduced due to lower bond yields creating a shortfall in premiums.

Insurers in privately underwritten schemes are prudentially supervised by APRA to ensure sufficient capital adequacy to meet outstanding liabilities. The benefit for Government is the protection of balance sheets and credit ratings. This leaves Government in a position to focus on the core role of scheme regulation, without the need to underwrite and manage schemes.

As the regulator, Comcare is perfectly placed to focus on workers compensation regulation, in times of:



- increasing upward pressure on premiums, in light of current low investment yields and developing scheme design; and
- the need to improve scheme design to enhance support for individuals in becoming self-sufficient both socially and economically in a timely fashion after an injury.

In considering the Federal Government's monopoly of the workers compensation scheme for Government Agencies, Suncorp would like to take this opportunity to elaborate on the guiding principles which Suncorp says define an effective accident compensation scheme.

### Scheme Design Principles

Suncorp considers the three key aims for an effective personal injury insurance scheme are *fairness*, *outcomes* and *affordability*. There are six guiding principles which define an effective personal injury insurance scheme across all statutory classes. These principles guide our input into scheme design and improvement with each of our regulators and governments nationally and guide our input into this current review.

- *Social Outcomes* - The scheme's emphasis needs to be on the individual's health and social outcomes (wellbeing), with a reduced focus on compensation payments. The ideal scheme should seek to support individuals in becoming self-sufficient both socially and economically.
- *Sustainability* - The scheme should be self-sustaining and operated with sound pricing and capital management practices so that liabilities remain fully funded.
- *Competition* – Private competition is a key driver of innovation and can lead to improvements in pricing, claims management and health outcomes for claimants.
- *Defined Benefits* - Benefits that are clearly defined by realistic timeframes, dollar amounts, caps and limits reduce ambiguity and inconsistent outcomes. This reduces complaints, disputes, litigation and volatility which would otherwise have adverse impacts on the scheme's affordability and financial viability.
- *National Consistency* – Progressing national harmonisation of personal injury schemes will see fair and consistent benefits for all individuals, regardless of state of residence and/or location of the accident. Employers, consumers and insurers will also gain benefits from a consistent approach across jurisdictions.
- *Dispute Resolution* – All decisions should be reviewable through a robust and cost effective dispute resolution system. It is important that all participants of the scheme, particularly claimants, have the opportunity to have their cases independently reviewed in a low cost, expedient and objective manner.



Suncorp contends that a scheme designed with these principles in mind will achieve the best possible outcome for its participants and claimants.

As part of our White Paper program, Suncorp often publishes thought leadership pieces. Thought leadership pieces relevant to this submission are:

- ['How international financial markets impact personal injury insurance'](#) - explores the impact bond yields have on the premium rate and capital requirements of insuring in a long-tail scheme; and
- ['Reflections on underwriting options for personal injury insurance'](#) - explores the benefits of privatising statutory schemes.

## The Self Insurance Scheme

Prior to 2007, private sector companies could apply to enter the Comcare scheme, through the self insurance process. There are benefits for private sector companies operating in more than one jurisdiction in joining the Comcare scheme.

Reducing regulatory costs in dealing with one national scheme as opposed to many different schemes with different regulatory requirements is an obvious benefit. Another benefit is levelling the competitive playing field between those industry participants who currently operate under the Comcare scheme and those who do not.

Savings in regulatory costs would be better used to:

- ensure workplaces are safe;
- promote and endorse a single work place safety and workers compensation culture; and
- drive a consistent approach in work place safety and return to work measures.

Such an approach would promote and/or enhance a positive employment culture, which in turn would increase workplace productivity.

In December 2007, a moratorium was considered necessary to examine whether the Comcare scheme provided workers with access to appropriate workplace safety and compensation arrangements. At the time, it was noted that the workers' profile within Comcare was slowly changing from the traditional 'white collar' worker base to an increasing 'blue collar' profile and evolving employment arrangements.

Now is an opportunity to consider lifting the moratorium and allowing eligible private sector companies to enter the Comcare scheme. With the introduction of the national occupational health and safety laws,<sup>10</sup> the scheme better caters for the change in worker profile and

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<sup>10</sup> Work Health and Safety Act 2011 (WHS Act) introduced on 1 January 2012



employment arrangements. Enhancing regulatory oversight on workplace safety is advisable and best performed at the State/Territory level.

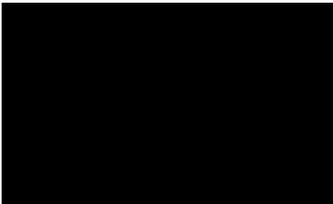
Whether the moratorium on private sector companies moving to the Comcare scheme is lifted or not, the Comcare scheme should access the NIIS, once it is fully implemented.

## Conclusion

Suncorp has outlined the benefits of privatisation of accident compensation schemes in terms of driving productivity improvements for long-term economic growth. This is particularly important in light of expected productivity challenges as a result of Australia's ageing population.

Suncorp is happy to elaborate further on any aspect of this submission and to work collaboratively with the Commission of Audit and relevant stakeholders upon request. If you wish to discuss this submission further please contact me on [REDACTED] or my Manager of Group Government and Stakeholder Relations, [REDACTED] or by email - [REDACTED].

Yours faithfully



[REDACTED]  
**Executive General Manager**  
**Statutory Portfolio & Underwriting Management**  
**Commercial Insurance**