



# Lessons From the Insurance Approach

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# Context

*“Most people lead their own lives with little need for government to play a direct role. They work, they raise their families and they make provisions for their future, with government acting only in the background to set basic societal and economic frameworks. But a good proportion of people will find themselves down on their luck at some stage and will need help to get back on their feet. Most people will only need to be lightly touched by Work and Income services before becoming independent again, but some will need more intensive or longer-term support”*

*Ministry of Social Development, Briefing to the Incoming Government, 2008*

# Outcomes matter

**Adverse events such as personal injury, sickness and unemployment have serious social and economic costs, including**

- | The costs of preventing injuries and disease
- | Lost productivity
- | Direct financial costs to individuals and families
- | Pain and suffering
- | Social disruption

**Its in the broad social and economic interest to minimise these costs, through**

- | Preventing or mitigating the factors that give rise to them
- | Lessening their effects

# What is insurance?

*...its a contract or agreement between one party (an insurer) and another party (the insured) to provide, in exchange for a set premium, agreed benefits to the insured on occurrence of future specified but uncertain or contingent events affecting the life or property of the insured*

# Insurance is about risk and its management

- | Its a mechanism for managing risk (uncertainty), such as the future timing and financial impact of accidental injury, illness or unemployment
- | The likelihood of such risks are actuarially assessed and quantified by the insurer
- | In return for a premium the risk is transferred from the insured to the insurer
- | If the risk eventuates, the insurer is obligated to provide agreed benefits

# Welfare is also a mechanism for managing risk

Like insurance, welfare enables individuals to pool – or spread – risk across members of a community

## But insurance is different:

- | There is a contractual relationship between the insured and the insurer
- | A premium is paid by the insured to the insurer - in advance of receiving the insurance cover and regardless of whether or not the adverse event occurs
- | Insurers invest premiums and sometimes reinsure or securitise their risks
- | Insurance can involve competitive underwriting

# The incentives are different

## On insurers (especially in a competitive market)

- | To price risk accurately
- | To perform well over time
- | To manage claims – cost effectively
  - To only accept valid claims
  - To minimise the total cost (over time) of each claim. For example through:
    - effective interventions – fast access to necessary medical services for instance or finding alternative work or employment
    - efficient claims management
    - efficient purchase of rehabilitation services
  - To achieve the right balance between different entitlements such as treatment , rehabilitation and income protection
- | To prudently invest premiums
- | To mitigate risk and ‘cherry pick’

## ...and for those insured

**Because insurance puts a price on risk, incentives sometimes exist for those insured to:**

- | Minimise risk, by for instance, making work places safer
- | Co-operate to achieve effective rehabilitation, by for instance providing light duties for injured employees
- | Not fully disclose relevant information

**Risk sharing arrangements (experience rating of premiums, no claim discounts, partial self insurance, deductibles and copayments) can all reinforce these incentives**

# Lessons From Accident Insurance

## Importance of full funding, for

- | Highlighting the economic costs of injury, and the potential gains from injury prevention
- | Achieving a strong focus on scheme performance over time
- | Making transparent the benefits and costs of changes to scheme cover and entitlements
- | Assessing the effectiveness of different approaches to claims management

## Importance of a complete and effective suite of tools

- | Effective case management
- | Direct purchase of medical treatment and rehabilitation services
- | Employer involvement
- | Reciprocal obligations
- | Contestable claims management

**...also**

**Importance of employer involvement**

**Importance of neutral dispute and appeal provisions**

**Importance of governance**

**Importance of prudential and market conduct regulation if competitively underwritten**