

Mr Chris White
A/Chief Executive Officer
WorkCover WA
2 Bedbrook Place
Shenton Park WA 6009

7 February 2014

Dear Mr White

SAFETY NET GOVERNANCE AND FUNDING: DISCUSSION PAPER

I refer to your letter dated 22 November 2013 concerning the proposal to consolidate the various safety net elements in the workers compensation scheme in Western Australia. The Safety Net Governance and Funding Discussion Paper (Discussion Paper) canvasses a model which would consolidate the following into a single fund:

- WorkCover WA General Account for claims against uninsured employers
- Employer' Indemnity Supplementation Fund in relation to claims against insolvent insurers and claims arising from acts of terrorism
- Claims by waterfront workers for asbestos related diseases
- Reinsurance arrangements for self insurers

The Insurance Council of Australia (ICA) has canvassed the views of our members who operate as licensed insurers in Western Australia. In general the ICA is supportive of measures to consolidate various funds to simplify their administration. However we would like to take this opportunity to comment on some of the practical ramifications of the proposals specifically concerning insolvent insurer and terrorism claims. Our members may also wish to provide you with further detail in relation to the issues raised in the Discussion Paper.

Firstly however, we wish to make some general comments in relation to the method of collection of the levy.

Levy Collection

The ICA supports measures which enhance the transparency of the funds collected. In other jurisdictions such funds are clearly noted on employer's policy documentation so that there is a clear understanding of what the monies will be used for.¹

We submit that a similar process should be undertaken in this instance to identify the purposes to which the funds will be put so that employers have a clear understanding of the amounts to be paid and the reasons why they are required.

Claims arising from Insolvent Insurers

Our members believe that there is a much smaller likelihood of an insurer becoming insolvent since the collapse of HIH in 2001, as there are more stringent controls, monitoring and

¹ Such as the Dust Diseases levy in NSW workers compensation or the MCIS levy in NSW CTP. For more information see

<http://www.workcover.nsw.gov.au/insurancepremiums/premiums/Calculatingpremiums/Pages/Dustdiseaseslevy.aspx> and

<http://www.maa.nsw.gov.au/default.aspx?MenuID=344>

supervision of Insurance companies in place at both the Federal and state level. However it remains prudent to have processes in place to ensure that all workers' claims are paid in the event that another collapse should occur.

Nevertheless our members would not support a process which calls for significant contributions from insurers should another insurer become insolvent. The ICA submits that this would put significant pressure on the capital reserves of those insurers. It could also lead to inconsistent methods of recovery of funds from employers which would reduce transparency of collection.

In the alternative, we would support a process which addresses the short term funding issues as follows:

- Set up a safety net fund where **that fund takes on the liabilities** for the safety net (not insurers) and the fund is replenished by a levy on employers (not insurers)
- The fund can obtain loans to cover liabilities where fund is short in cases where large urgent payments have to be made
- Immediately implement a 1% levy on employers (collected by insurers) which would raise \$10m in the first year
- The levy would be permanent with ability to vary up or down depending on estimated future fund requirements/events based on calculations made by the scheme actuary
- Cap the overall balance of the Fund at (say) \$100m with government approval required to increase

We submit that such an arrangement would prevent an undue burden on either the capital reserves of our members or the WorkCover WA.

Claims arising from Acts of Terrorism

We refer to the submission of our members dated 29 October 2012 and note that reinsurance remains largely unavailable from AAA rated reinsurers for this type of risk over the cap of \$25million. With the proposed increase to \$100million, our members are concerned on how this may be funded. If the reinsurance is unavailable, this may place a considerable burden on the capital position of licensed insurers.

In these circumstances we submit that the type of fund detailed above could also be extended to cover potential liabilities in the event of an act of terrorism.

We look forward to working with WorkCover WA on proposals to streamline the funding proposals for the various safety nets required to ensure the protection of injured workers in Western Australia. If you have any questions or comments in relation to the above please do not hesitate to contact Justine Hall, Senior Policy Advisor on (02) 9253 5122 or on jhall@insurancecouncil.com.au .

Yours sincerely



Robert Whelan
Executive Director & CEO