



21 November 2014

Professor Ian Harper  
Chair, Competition Policy Review Panel  
The Treasury, Langton Crescent  
PARKES ACT 2600

Dear Professor Harper,

**RE: COMPETITION POLICY REVIEW – ISSUES PAPER**

Suncorp Group welcomes the opportunity to provide a submission in response to the *Competition Policy Review – Draft Report*. This submission (**Attachment A**) is lodged on behalf of Suncorp Group's Commercial Insurance business and builds on our previous submission to the Issues Paper released earlier in the year.

Suncorp believes that in consideration of the questions outlined in the *Draft Report* to determine areas of priority, the privatisation of Workers Compensation and Compulsory Third Party (CTP) schemes meet all five points and the case for reform would significantly benefit from being highlighted in the final report.

These reforms remain unfinished business from the National Competition Policy. They would promote choice and innovation in markets for private goods and stimulate competition in the market by removing barriers to entry for many private providers. They would assist with addressing some of the outcomes of Australia's ageing population by creating a competitive incentive to reduce the duration of injuries as the workforce ages and participation rates decline. And importantly, these reforms would raise productivity and Australian living standards over time.

To assist the Panel in its consideration of the productivity and other benefits that remain locked in the estimated \$11 billion in Government underwritten personal injury schemes, Suncorp has commissioned PwC to economically model the possible benefits of privatising three schemes. These case studies cover the South Australian Compulsory Third Party and Workers Compensation and New South Wales Workers Compensation schemes. PwC's complete report is included with our submission (**Attachment B**).

Should you have any further questions regarding our submission, our position or the information provided, please contact Public Policy Senior Manager Duncan Bone on 02 8121 0277 or [atduncan.bone@suncorp.com.au](mailto:atduncan.bone@suncorp.com.au), or Group Government Relations Manager Marcus Taylor on 07 3135 3782 or [marcus.taylor@suncorp.com.au](mailto:marcus.taylor@suncorp.com.au).

Yours sincerely,

Anthony Day  
**CEO Commercial Insurance**



# Competition Policy Review: Draft Report

Suncorp General Insurance Submission



One Company  
Many Brands





## Executive Summary

Suncorp welcomes the Competition Policy Review Draft Report. In particular, Suncorp welcomes the recommendations for all jurisdictions to review regulatory impediments to competitiveness and efficiency across the country.

Statutory insurance schemes, unlike businesses such as utilities, banks and telecommunications, have remained predominantly under public management following the Hilmer review in 1993.

Personal injury insurance is a nationally significant industry worth an estimated \$15<sup>1</sup> billion in gross written premiums. Around \$10 billion remains in the public sector.

Suncorp has engaged Price Waterhouse Coopers (PwC) to model the economic and productivity impacts of privatising three schemes - the New South Wales (NSW) Workers Compensation (WC) schemes and the South Australian (SA) Compulsory Third Party (CTP) and Workers Compensation schemes. The report (**Attachment B**) found privatisation produced beneficial outcomes independent of changes to schemes' benefit structure or design. In summary, it found:

- privatisation creates additional economic output, output per worker and government revenue, driven by a boost to productivity growth and increases capital efficiency;
- higher productivity gains leading to increased wage and employment growth and increased household consumption;
- privatisation of the three schemes would contribute over \$3.9 billion in economic output over 10 years – the NSW WC scheme alone delivering \$3 billion.

Privatising these schemes to drive productivity gains and growth in Australian living standards remains unfinished business of the National Competition Policy (NCP).

In response to the Panel's five questions to determine priority areas in the current competition review, Suncorp identifies this reform as satisfying all five-priority areas. There are also possible conflicts between Comcare and state-based schemes that need examination under the wider competitive neutrality review.

Suncorp continues to support the government running the National Disability Insurance Scheme (NDIS) and the National Injury Insurance Scheme (NIIS) given the lifetime nature of severe disabling personal health conditions or injuries.

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<sup>1</sup> These figures exclude companies that self-insure, which Suncorp believes accounts for several billion dollars in annual costs.



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## Overview of Suncorp Insurance

Suncorp is one of the leading general insurance groups in Australia offering a range of personal and commercial insurance products protecting the financial wellbeing of millions of Australians. As a Group, Suncorp has nearly 15,000 employees and more than nine million customers across the country. Our General Insurance business alone paid out \$5.8 billion in insurance claims in 2012-13, averaging more than \$15 million each day.

Suncorp offers commercial insurance products that serve the needs of a wide range of business customers, from small business operators to global companies. The Commercial Insurance portfolio of brands includes GIO, AAMI, Suncorp Insurance, and Vero. Suncorp is also Australia's largest personal injury insurer offering Workers Compensation and Compulsory Third Party (CTP) insurance, which serve the needs of governments, employers, employees, consumers and the community.

Suncorp values the communities in which we live and work and have entered into partnership with a range of organisations who are also dedicated to making a difference in people's lives of those who have been affected by personal injury. These include Youngcare, Disability Sports Australia, Wheelchair Sports NSW, Technical Aids for the Disabled, the Australian Road Safety Foundation and the Inspire Foundation.

Suncorp also works with youth education initiatives such as the P.A.R.T.Y. Program and has a partnership with the Driver Education Centre of Australia that aim to address some of the root causes of severe personal injury on Australian roads.



## Introduction

Suncorp welcomes the Competition Policy Review Draft Report (Draft Report). In particular, we support:

- Draft Recommendation 1 – Competition Principles; and
- Draft Recommendation 11 – Regulation Review.

The Draft Report identifies regulatory restrictions on competition, where “Compulsory workers’ compensation insurance and third-party personal injury transport insurance are only available from government monopoly providers in some States”<sup>2</sup>.

Suncorp supports the Panel’s view that more needs to be done to remove anti-competitive provisions in legislation of personal injury schemes.

There is no jurisdiction in Australia within which the Government provides personal injury insurance in direct competition with the private sector. Indirectly, however there are conflicts between Comcare and state based schemes that need examination and Suncorp also supports a review of competitive neutrality policies across jurisdictions.

The current status of the industry includes multiple personal injury statutory schemes across the nation with incomplete reforms from the National Competition Policy (NCP). Given the significant size of the industry and its importance to Australians who suffer a personal injury, Suncorp considers the privatisation of these schemes would be a powerful tool to enhance productivity and economic activity nationwide, as supported by the attached PwC study **(Attachment B)**.

In response to the Panel’s questions to decide priority areas in the Draft Report, this submission will identify how further private underwriting of schemes will:

- promote choice, diversity and innovation in markets for private and/or government goods and services;
- raise productivity growth and Australian living standards over time;
- stimulate competitive entry into the personal injury markets by lowering barriers to entry for private providers;
- create a competitive incentive to reduce the duration of injuries – an important factor with workforce participation rates declining as the Australian workforce ages and retires;
- complete unfinished business from the original NCP.

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<sup>2</sup> Competition Policy Review, *Draft Report*, September 2014, P76.



## The benefits of opening statutory insurance markets: innovation and productivity

*In all States and Territories, compulsory third party (CTP) insurance and workers' compensation insurance are mandatory. Consequently, these insurance markets are nationally significant.<sup>3</sup>*

*Productivity Commission, 2005*

Statutory insurance schemes are worth around \$15<sup>4</sup> billion nationally each year. Of this about \$10 billion remains underwritten by the public sector. There is significant opportunity to open this sector up to competition by removing the barriers to entry. Increased competition would drive productivity gains, increase economic output, promote innovation and most importantly, deliver better outcomes for injured beneficiaries of the scheme. This is a crucial response to declining workforce participation rates, as the workforce ages and retires.

### Productivity: economic advantages

Suncorp engaged PriceWaterhouseCoopers (PwC) to undertake a study (**Attachment B**) into the potential economic and productivity gains of privatising statutory schemes. To undertake this task, three public schemes were selected. These were the New South Wales (NSW) and the South Australian (SA) Workers Compensation schemes and the SA CTP motor vehicle insurance scheme.

The study found privatisation offers beneficial outcomes. The PwC report found:

- privatisation creates additional economic output, output per worker and government revenue, driven by productivity growth and increases in property and payroll taxes; and
- higher productivity gains lead to increased wages and employment growth, which in turn would lead to increased household consumption.

The specific case studies found privatisation boosted employment across each jurisdiction after an initial fall in the first year.


The table below summaries the PwC case study outcomes.

**TABLE 1: Potential macroeconomic effects of privatisation by 2024-25, cumulative deviation from base case of no privatisation**

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<sup>3</sup> Productivity Commission, *Review Of National Competition Policy Reforms*, Report No 33, 28 February 2005, P267

<sup>4</sup> These figures exclude companies that self-insure, which Suncorp estimates also account for several billion dollars in annual costs.



	NSW Workers Compensation scheme	SA Workers Compensation scheme	SA CTP
Real Gross State Product (\$m)	3,067	530	308
Employment (persons)	804	194	95
Productivity (\$GSP/worker)	691	531	311
Tax revenue (\$m)	615	108	67

These three schemes represent about 32 percent of the estimated \$11 billion industry underwritten by the Government.

Without further modelling on the other schemes it is difficult to predict the broader economic benefit of privatisation across Victoria, Western Australia, Queensland, as well as the national Comcare scheme.

However, extrapolating the PwC outcomes for NSW and SA based on related scheme size in the states not modelled would suggest a boost of at least an additional \$6-12 billion in GSP/GDP over the next decade. Further modelling would be necessary to confirm this estimate.

Taxation revenue also increases as part of this and is estimated to exceed over a billion dollars if all schemes were privatised. Again further modelling would be needed to confirm this scale.

### Note on the PwC report approach to prudential standards

The PwC report economically models the outcomes of revisiting schemes based on assumptions derived from a review of available information on private and public schemes. More detail on these assumptions is available within the report (**Attachment B**).

One of the key assumptions within the PwC model is that the current Government schemes are made ready and capitalised to Australian Prudential Regulation Authority (APRA) private insurer standards at time of transfer. No government scheme is regulated by APRA or required to meet these standards currently.

The modelling therefore does not account the impact on the economy of any required Government rectification of any unfunded or overfunded liabilities, or changing capital solvency levels to those required of private insurers as mandated by the Government under APRA at date of sale. It also does not include the usual costs associated with sale transactions or any hidden impacts (positive or negative) of cross-subsidisation or over/under capitalisation of public personal insurance schemes that are specific to those schemes. These were not included in the model as the necessary comparable data on government underwritten schemes is not comprehensively publically available at this stage. These impacts could affect the \$3.9 billion benefits from the three case studies.



Regardless of who underwrites the scheme the risks/liabilities remain the same, as set by the community through legislation. Over a long enough timeline, these risks will be realised. In the publicly underwritten schemes, if this realisation exposes insufficient capital holdings, Government will either need to retroactively raise additional revenue— through premiums or taxes, reducing government services, or altering benefits to the injured, in order to meet the costs of these liabilities. Ultimately, these costs must be met by someone in the economy.

For private underwriters APRA standards are in place to ensure enough capital is held to meet the risks as they occur. Any prudential capital required by APRA above the eventual level needed to meet ultimate claims costs is returned to productive use in the economy either by being returned directly to customers via reduced premiums or greater value adds, or indirectly into the economy through capital return to shareholders, attracting further investment.

It is important to note if Government schemes are currently underfunded by APRA standards, this issue is only likely to compound while the estimated benefits of privatisation remain unrealised. Each year the productivity gains from private underwriting are not implemented crystallises the loss of part of these benefits, and introduces further productivity drag on new claims during the period of delay.

### **Stimulating competition, choice and innovation in the market: increasing workforce participation as the population ages**

The size of the personal injury market is significant and cannot be ignored in terms of providing productivity benefits to the economy. Increased competition is likely to increase positive health outcomes, the core benefit of privatisation. This is essential in supporting early social and economic independence in response to the declining workforce participation rates as the ageing workforce retires.

Competition for customers in the personal injury market drives a better use of funds and innovative practices to reduce the duration of the injury. An independent study of the NSW scheme in 2012 found:

*...that self-insurers and specialist insurers appear to be more incentivised to invest more in prevention and early intervention than agents under the Nominal Insurer Scheme as their private underwriting models set up stronger incentives to reduce the number and cost of claims. These insurers are believed to have experienced a greater reduction in more serious psychological injury claims by better identifying cases early on that require a different and specific approach to case management.<sup>5</sup>*

There are numerous privately underwritten personal injury insurers already operating in the market with extensive expertise and assets to underwrite and operate nationwide. The low barriers to entry into the insurance market in Australia means privatisation of schemes would increase competition with in the industry

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<sup>5</sup> Centre for International Economics, *Statutory review of the Workers Compensation Legislation Amendment Act 2012*, 30 June 2014, p 18



Suncorp believes that opening the market to private underwriters also creates a better environment for market price signalling of risk, an important incentive to individuals and organisations to better manage risk. This is a vital function of well-regulated privately underwritten personal injury schemes, where the benefits structure is decided by the community through legislation and premiums charged to reflect the capital necessary to underwrite sustainably.

Separating the three areas of (i) government legislation and budgeting (ii) regulation of personal injury schemes; and (iii) provision of non-CAT capital, underwriting and claims services strengthens the separation of duties of government, regulators and competitive service provision



## Previous regulatory reviews: unfinished business

*...this is an area where the reform process to date has failed to take advantage of opportunities to deliver better outcomes for those requiring these insurance products and for the community more generally.<sup>6</sup>*

Productivity Commission, 2005

Suncorp welcomes the Panel's Draft Recommendation 11 outlining a review of regulations that unnecessarily restrict competition. The 1995 NCP made similar recommendations, as did the Productivity Commission Review in 2005.

The need to reform the personal injury statutory insurance market has been recognised for years. For instance, the National Competition Council identified workers compensation insurance as a priority area for legislative review as "those restrictions [are] likely to have the greatest impact on competition."<sup>7</sup>

Despite these reviews, State, Territory and the Commonwealth Governments have consistently failed to implement their recommendations. For instance, the Productivity Commission has found that:

*All States and Territories have conducted separate legislation reviews of monopoly insurers and premium controls. However, moves to implement the recommendations arising from these reviews have been slow, with no action occurring in some cases. For instance, despite all of the initial reviews into the monopoly provision of CTP insurance recommending that more competition be introduced — and three out of the five workers' compensation reviews reaching the same conclusion — no jurisdiction has, as yet, amended legislation to allow this to happen. In some instances, governments have commissioned further reviews that have overturned the initial findings and recommended retaining monopoly insurers.<sup>8</sup>*

Unless this sector is given priority focus by the Panel, it may remain a productivity drag on Australia's economy for decades to come.

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<sup>6</sup> Productivity Commission, *Review Of National Competition Policy Reforms*, Report No 33, 28 February 2005 P269

<sup>7</sup> *Ibid*, P17

<sup>8</sup> *Ibid*, P268



## Conclusion

Suncorp thanks the Panel for the opportunity to provide feedback in response to the Draft Report.

The Draft Report highlights the need for reform to ensure Australia remains productive and competitive, and to maintain and enhance Australia's standard of living.

The privatisation of the remaining Government-run statutory personal injury schemes – totalling at least \$11 billion – satisfies the five priority areas raised by the Panel's questions.

PwC has modelled the impact of privatisation upon three Government-run schemes – NSW and SA Workers Compensation and SA CTP – and found that privatisation would deliver over ten years a combined:

- GSP boost of \$3.9 billion;
- State and Commonwealth tax revenue increases of \$783 million; and
- employment growth of 1093 jobs.

Given these three schemes represent about 36 percent of the \$10 billion statutory personal injury schemes underwritten by the Government nationwide, the benefits of privatising all Government run schemes are likely to be significantly higher.

Increasing competition in statutory personal injury schemes is also likely to promote greater social and economic outcomes for beneficiaries of the schemes as cost gains are invested back into claims management innovation and efficiency to further drive improvements in services to claimants.

There are also indirect conflicts between Comcare and state based schemes that need examination through a review of competitive neutrality.

These reforms are a vital and powerful step in supporting Australia's productivity growth. Personal injury schemes that promote better social and economic outcomes for beneficiaries are an essential tool in response to the declining workforce participation rates and an ageing population.

# *Potential economic benefits of private underwriting of statutory insurance schemes*

Non-catastrophic personal injury  
schemes

*The Suncorp Group*

*November 2014*



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Chris McHugh  
Executive General Manager - Statutory Portfolio  
Suncorp Commercial Insurance  
18 Jamison Street  
Sydney NSW 2000

21 November 2014

Dear Chris

***Potential economic benefits of private underwriting of statutory insurance schemes***

Please find attached the final report titled '*Potential economic benefits of private underwriting of statutory insurance schemes*' to be used to accompany the Suncorp Group's (Suncorp) submission to the Competition Policy Review.

PwC was engaged by Suncorp to assess the *potential* economic gains of private underwriting of select non-catastrophic personal injury schemes in two chosen jurisdictions in Australia. They included the New South Wales and South Australia workers' compensation schemes and the South Australia Compulsory Third Party (CTP) motor vehicle insurance scheme.

As part of this engagement we have highlighted a number of potential benefits associated with private underwriting of insurance schemes relative to government underwriting. These include: better capital management; reduced risk to government; increased competition; improved innovation; and greater flexibility.

In order to determine the potential macroeconomic and productivity benefits associated with privately underwritten insurance schemes in each jurisdiction, PwC considered the Productivity Commission's research on the benefits of lowering workplace injuries and diseases,<sup>1</sup> Safe Work Australia's research on the cost of work-related injury and illness for Australian employers, workers and the community<sup>2</sup> and the indicative comparison from the existing schemes in Australia. An inability to source sufficient data for direct comparative modelling from the accident compensation sector, and the inability to control for differences in scheme design, resulted in scenarios

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<sup>1</sup> Industry Commission (1995), 'Work, Health and Safety: An Inquiry into Occupational Health and Safety', *Australian Government Productivity Commission, Report No. 47, 11 September 1995, Appendix* Accessed at <http://www.pc.gov.au/industry-commission/inquiry/47workhe>,

<sup>2</sup> Safe Work Australia (2012), 'The Cost of Work-related Injury and Illness for Australian Employers, Workers and the Community: 2008-09', *Safe Work Australia, March 2012*, accessed at <http://www.safeworkaustralia.gov.au/sites/swa/about/publications/pages/cost-injury-illness-2008-09>

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being developed in conjunction with Suncorp which were used as final inputs into the economy-wide modelling.

This report models some scenarios to illustrate the potential performance benefits to publicly managed schemes if they were to be operated privately and the capital was also managed privately.

Direct comparison between private and government underwriting of non-catastrophic personal injury schemes is not possible across the states. Differences between scheme designs create difficulties in disentangling and extracting the potential benefits of privately underwritten schemes across jurisdictions in Australia.

In addition, the modelling does not make explicit allowance for some characteristics of how schemes are underwritten. This is due to limited detailed information regarding current arrangements and uncertainties around any potential privatisation.

Should you have any questions about the final report please do not hesitate to call me on 02 6271 3131.

Yours sincerely

A handwritten signature in black ink, appearing to read 'J Thorpe', with a stylized flourish at the end.

Jeremy Thorpe  
Partner, Economics & Policy



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# *Executive Summary*

PricewaterhouseCoopers Australia (PwC) was engaged by Suncorp Group (Suncorp) to assess the potential economic and productivity gains of private underwriting of certain non-catastrophic personal injury schemes in three chosen jurisdictions in Australia. They included the New South Wales and South Australia workers compensation schemes and the South Australia Compulsory Third Party (CTP) motor vehicle insurance scheme.

The economic modelling undertaken estimated the direct and indirect impact of potential productivity improvements in capital and labour. These benefits were based on several explicit assumptions related to:

- improvements in capital management in the insurance sector
- better case management towards the faster recovery of injured persons
- a reduction in health expenditure associated with the faster recovery, through improvements in delivery, without reducing levels of care or health outcomes.

Development of the assumptions and modelling of the consequent impacts considered:

- the Productivity Commission's research<sup>3</sup> on the benefits of lowering workplace injuries and diseases, Safe Work Australia's research on the cost of work-related injury and illness for Australian employers, workers and the community<sup>4</sup> and the indicative comparison from the existing schemes in Australia.
- an approach consistent with comments from the Centre for International Economics (CIE) report on the statutory review of the *Workers Compensation Legislation Amendment Act 2012*, which noted that the duration of claims may be impacted by how an agent decides to manage a claim through its available resources, processes and technology.<sup>5</sup>

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<sup>3</sup> Industry Commission (1995), 'Work, Health and Safety: An Inquiry into Occupational Health and Safety', *Australian Government Productivity Commission, Report No. 47, 11 September 1995, Appendix* Accessed at <http://www.pc.gov.au/industry-commission/inquiry/47workhe>

<sup>4</sup> Safe Work Australia (2012), 'The Cost of Work-related Injury and Illness for Australian Employers, Workers and the Community: 2008-09', *Safe Work Australia, March 2012*, accessed at <http://www.safeworkaustralia.gov.au/sites/swa/about/publications/pages/cost-injury-illness-2008-09>

<sup>5</sup> The Centre for International Economics (2014), 'Statutory review of the Workers Compensation Legislation Amendment Act 2012', *The Centre for International Economics, 30 June 2014*, accessed at [http://www.parliament.nsw.gov.au/prod/lc/lctabdoc.nsf/cccc870c6126b1b6ca2571ee000318a4/d58c51e9e1fb2838ca257d080004ebdd/\\$FILE/95655537.pdf/CIE%20Final%20Report\\_NSW%20Workers%20Comp%20Statutory%20Review%20-%20300614.pdf](http://www.parliament.nsw.gov.au/prod/lc/lctabdoc.nsf/cccc870c6126b1b6ca2571ee000318a4/d58c51e9e1fb2838ca257d080004ebdd/$FILE/95655537.pdf/CIE%20Final%20Report_NSW%20Workers%20Comp%20Statutory%20Review%20-%20300614.pdf)

These scenarios do not take into account the cost of transferring a publicly managed scheme to become privately underwritten nor should it be interpreted as a complete cost-benefit analysis. If more data became available on publicly underwritten schemes further analysis could include, among other things:

- increased capital holding required by the private sector to satisfy APRA regulatory requirements and executive board preferences and the implications of differing tax treatment
- transaction and regulatory costs involved in the completion of the acquisition (including taking into account any potential opportunity cost to the private sector in acquiring the scheme).

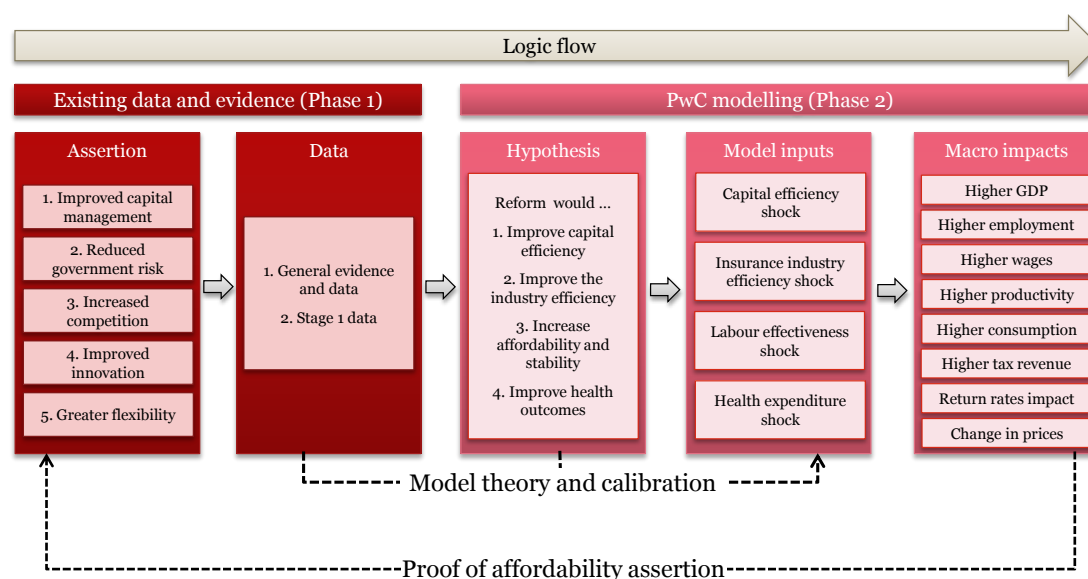
There are a number of potential benefits associated with private underwriting of insurance schemes relative to government underwriting, including:

- **Better capital management** – the introduction of independent prudential oversight by APRA, the enhanced transparency, the differing rates of return, and the need to perform for stakeholders reduces the probability of schemes running into deficit.
- **Reduced risk to government** – reduced financial exposure (and hence risk) to government balance sheets and thus taxpayers, and in doing so protecting government credit ratings. It also allows for scarce government revenue to be freed up and reallocated to other critical areas of government activity, at the lowest possible cost of funding for tax payers.
- **Increased competition** – private underwriting would allow more market participants (i.e. private insurers) to enter the market depending on whether they feel they can competitively play in the sector and adapt to changing consumer choices. This addition of more market participants within the sector thus increases competition driving greater insurance policy choice and competitive offers to ‘win’ consumers.
- **Improved innovation** – private companies would have the impetus to implement innovative solutions concerning rehabilitation and return-to-work processes. This improves productivity and wellbeing within the community by potentially enabling people to recover sooner from their injuries. It also means an improvement in support for injured people to be socially and financially independent as soon as possible after an injury.
- **Greater flexibility** – private firms generally have greater flexibility and can respond quicker to emerging claim trends and challenging economic environments compared to public bodies.

## Approach

To undertake this analysis, PwC researched the potential direct impacts of private underwriting of statutory insurance schemes and tested these with Suncorp. We used an economy-wide computable general equilibrium (CGE) model. Finally, we compared these economic impacts against a business as usual base case in the respective jurisdictions to estimate the total economic and productivity gains. This approach was spread across two phases as shown in Figure 1.

**Figure 1: The overarching framework**



There were a number of limitations that affected the modelling approach shown in Figure 1.

First, direct comparison between private and government underwriting of non-catastrophic personal injury schemes is not possible across the states. Differences between scheme designs create difficulties in disentangling and extracting the potential benefits of privately underwritten schemes across jurisdictions in Australia. Consequently scenarios were developed in conjunction with Suncorp to be used as final inputs in the economy-wide modelling.

Additionally, the modelling does not make explicit allowance for some characteristics of how schemes are underwritten. This is due to limited detailed information regarding current arrangements and uncertainties around any potential privatisation. This potentially impacts on the following stakeholders:

- Government - the lack of detailed information on the current structure (including cost trends, funding and liability profiles) means that we have not addressed:

- the need for governments to adequately capitalise schemes to meet regulatory requirements prior to privatisation
- the uncertainty associated with the value of schemes and hence the profit/loss of any potential sale.
- Private – other than published APRA regulatory requirements, a lack of specific details mean that we have not addressed:
  - the impact of acquiring the scheme (by forgoing potential higher or lower rates of return elsewhere in the economy)
  - the internal capital holding preferences above the prescribed capital amount for individual private scheme operators.

### **Key data inputs**

Three streams of potential impacts were assumed in the economic modelling scenarios in order to estimate the potential economy-wide net potential benefits of private underwriting.

**Table 1: Direct effects of an improvement in scheme outcomes**

	<b>NSW Workers Compensation</b>	<b>SA Workers Compensation</b>	<b>SA CTP</b>
Better capital management – capital productivity	0.81%	1.05%	1.39%
Better injured person case management – labour productivity	0.47%	0.45%	0.03%
Reduction in health expenditure	0.23%	0.16%	0.14%

These variables are based on each individual scheme's data and assumptions about the improvements under private underwriting of insurance schemes. Key assumptions are:

- a 10 per cent improvement in capital productivity under private underwriting
- a 5 per cent improvement in case management for non-catastrophic personal injuries leads to a faster recovery and improved labour productivity
- a 10 per cent reduction in health expenditure associated with non-catastrophic injuries.

The research underlying these assumptions is detailed in Section 3 of the report.

## *Key findings*

The model estimated the total (direct and indirect or flow-on) impacts of productivity gains if realised. These potential economy-wide impacts were evaluated against a base case, which was based on official macroeconomic forecasts to 2024-25 and included the impacts of maintaining the current statutory insurance schemes in each jurisdiction. The forecast horizon of a decade was selected to allow time for the changes to reach a steady state in the economy. As such, deviations from the base case could then be interpreted as the potential economic effects of an improvement in scheme outcomes. These impacts included:

- Increases in total taxation revenue, both Commonwealth and State, would approximately amount to \$615 million (NSW workers compensation), \$108 million (SA workers compensation) and \$67 million (SA CTP scheme)
- Real gross state product (GSP) would increase by:
  - New South Wales workers compensation – increase NSW GSP by 0.48 per cent or over \$3 billion by 2024-25
  - SA workers compensation scheme – increase SA GSP by 0.45 per cent or \$530 million by 2024-25. Recently significant legislative changes were made to the SA workers compensation scheme. For the purpose of modelling this case study, PwC has modelled the scheme as previously legislated
  - SA CTP insurance scheme – increase SA GSP by 0.26 per cent or \$308 million by 2024-25.
- A reduction in the cost of labour and the stimulation of employment and real wages in the economy.
- An impact on household disposable income and consumption either through changes in the level of premiums or through faster returns to work.

The modelling highlights the impact on key macroeconomic indicators. The cumulative results represent incremental annual changes that compound over a ten year period. This timeframe allows for the changes to fully work through the economy to reach a steady state. Initially, there is a net negative impact to employment, with an immediate reduction in the public sector part of the insurance industry. Employment recovers in the subsequent periods with labour redeployed to alternate sectors.

Overall, the results show that improved capital efficiency and productivity outcomes of non-catastrophic personal injury schemes can lead to generalised macroeconomic improvements.

**Table 2: Potential macroeconomic effects modelled by 2024-25,  
cumulative deviation from base case**

	NSW Workers Compensation scheme	SA Workers Compensation scheme	SA CTP
Real gross state product (\$m)	3,067	530	308
Employment (persons)	804	194	95
Productivity (\$GSP/worker)	691	531	311
Tax revenue (\$m)	615	108	67

# ***1 Introduction***

There have been many qualitative arguments put forward for the private underwriting of certain insurance schemes. Little light has been shed on the potential quantitative economy-wide effects if improvements in outcomes can be achieved. It is within this context that the Suncorp Group (Suncorp) engaged PricewaterhouseCoopers Australia (PwC) to explore and assess the potential economic and productivity gains of privatising non-catastrophic personal injury schemes. To do so, a case study approach was used to ensure the analysis was focused, relevant and took account of state specific factors.

The schemes chosen by Suncorp for this analysis include workers compensation and Compulsory Third Party (CTP) schemes. Specifically, PwC was engaged to identify relevant data and analyse the following schemes with the aim of assessing the potential economic gains through the use of three individual case studies:

- New South Wales Workers Compensation scheme
- South Australia Workers Compensation scheme
- South Australia Compulsory Third Party insurance scheme.

## ***1.1 This report***

This report illustrates the performance benefits a publicly managed scheme could generate if it was operated privately and the capital was managed privately. It assumes no changes in capital structures or regulatory changes under the current publicly managed workers compensation scheme. Further detailed analysis would be required to understand the impacts to the economy of individual state schemes being acquired by the private sector.

This report is the culmination of a two phase project:

- Phase 1 was primarily concerned with identifying suitable data and research to determine indicators for the difference between publicly and privately underwritten workers compensation and CTP insurance schemes. The challenge of being unable to find sufficient supporting evidence from the accident compensation sector resulted in certain scenarios being developed in conjunction with Suncorp which were used as final inputs in the economy-wide modelling.
- The agreed scenarios of Phase 1 were used in to form inputs — or ‘shocks’ — into the economy-wide modelling in Phase 2.

## ***1.2 Report structure***

This report is structured in a manner that clearly delineates the three case studies whilst providing a coherent and logical flow. All three studies are

based on the same set of assumptions and thus all three use the same underlying methodology to model the economic impact any improvement in outcomes. As such, the core approach used for this body of work is provided in a methodology section that is not specific to any one case study but rather is the framework used and is relevant for the discussion of all three case studies.

Given the above, the report is structured as outlined below.

- **Section 2: Context**

This section provides the context through a short discussion of the catalyst of this report and background as to the general private underwriting argument.

- **Section 3: The approach**

This section discusses the overall methodology used throughout this engagement. Core to the process used in the analysis was the ‘story’ used to determine the shocks felt by the economy through the private underwriting of the chosen schemes. Given its significance, this section clearly outlines the assumptions made regarding the story and the framework for how the story was modelled.

- **Section 4 and 5: Workers Compensation – New South Wales**

These sections outline the core assumptions and the resulting impacts that are hypothesised to accrue to the NSW community if improved outcomes were achieved to the current workers compensation scheme. The key outcomes regarding macroeconomic, labour market and tax revenue effects are explored in detail.

- **Sections 6 and 7: Workers Compensation – South Australia**

Similar to the first case study, these sections outline the core assumptions and the resulting impacts that are hypothesised to accrue to the SA community if improved outcomes were achieved to the current workers compensation scheme. The key outcomes regarding macroeconomic, labour market and tax revenue effects are explored in detail. Recently, significant legislative changes were made to the SA workers compensation scheme. For the purpose of modelling this case study, PwC has modelled the scheme as previously legislated.

- **Sections 8 and 9: Compulsory Third Party – South Australia**

Again, similar to the previous studies, these sections outline the core assumptions and the resulting impacts that are hypothesised to accrue to the SA community if improved outcomes were achieved to the current CTP scheme. We note that the private underwriting of SA CTP scheme has recently been announced; however, it is still unclear as to what this would entail. Consequently, for the purpose of modelling this case study,

PwC models the scheme as currently legislated. The key outcomes regarding macroeconomic, labour market and tax revenue effects are explored in detail.

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## 2 Context

### 2.1 The catalyst

In December 2013, the Prime Minister and the Minister for Small Business announced the *Competition Policy Review*, with the final terms of reference and details of the panel being announced in March 2014. This review forms part of the Federal Government's microeconomic reform package and has been instigated to ensure that Australia has a supportive and healthy competitive environment.

This is the first comprehensive review of Australia's competition laws and policy in over twenty years.<sup>6</sup> Consequently, this engagement was embarked upon to explore the private underwriting argument and provide a robust analysis of the effect of private underwriting to the economy, if it resulted in improved outcomes.

### 2.2 The market

Currently, many personal injury insurance schemes in Australia operate as state-owned monopolies which have not faced broad-scale competition reforms. The Australian General Insurance industry evolved over time and currently there are 116 general insurers operating locally (including 104 direct insurers and 12 reinsurers). Of these, a number are major global players operating in insurance markets across multiple countries.<sup>7</sup>

The financial and insurance sector is a major sector in Australia economy contributing around \$133 billion to the Australian economy in 2013-14. This equates to over 8 per cent of gross domestic product (GDP).

The size of the workers compensation market is significant. In 2013-14, it was worth \$11.5 billion in gross written premiums nationally. CTP is worth around \$5.3 billion in gross written premiums annually.<sup>8</sup>

In Australia, there is a mix of publicly underwritten, privately underwritten and hybrid workers compensation and CTP schemes.

Compensation payments are funded by premiums collected and the management of claims can be public or private. If the scheme is publicly underwritten, then management of claims can be handled by either public or

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<sup>6</sup> Australian Government, 'Competition Policy Review (2014)', available at <<http://competitionpolicyreview.gov.au/about-the-review/>>

<sup>7</sup> Suncorp Group (2014), 'Submission to Competition Policy Review', *Suncorp Group Limited, 13 June 2014*, available at <<http://competitionpolicyreview.gov.au/files/2014/06/Suncorp.pdf>>

<sup>8</sup> Ibid.

private bodies. However, if the scheme is privately underwritten, management of claims will be in the hands of the private sector.

Workers compensation schemes differ across Australia. Currently, the following types of schemes are present:

- The WA, NT, TAS, ACT and Seafarer schemes are underwritten by private sector insurers and are funded by insurance premiums collected by private insurers themselves. The financial risk is borne by private insurers and is supervised by the Australian Prudential Regulatory Authority (APRA).
- In Queensland, the scheme is underwritten, managed and regulated by the public sector. The scheme is **not** supervised by APRA and the financial risk is borne by the Queensland Government.<sup>9</sup>
- In NSW, SA and VIC, a hybrid arrangement is utilised where the government underwrites the policy but outsources the claim management process to a select number of private insurers. These schemes are **not** supervised by APRA and the financial risk is borne jointly by government and the private sector.

Similarly, CTP schemes also differ across Australia with underwriting of schemes occurring in the following manner:

- In NSW, QLD and ACT, motor accident schemes are underwritten by private sector insurers. These are funded by insurance premiums collected by private sector insurers. The financial risk is borne by private insurers and is supervised by APRA.
- In SA, it was recently announced that from 1 July 2016, the Motor Accident Commission (MAC) will cease its role as the sole provider of CTP vehicle insurance in SA to open the way for provision of CTP insurance by the private sector.<sup>10</sup>
- All remaining states and territories have CTP schemes that are publicly underwritten, and hence the financial risk is borne by government; and are **not** supervised by APRA.

While CTP is privately underwritten in NSW, QLD, ACT (and from July 2016 in SA), the governments in these states will still collect a levy from consumers to fund the National Injury Insurance Scheme (NIIS). This is because the government still holds the responsibility of covering catastrophic injuries. However, this is considered out of scope of this report as the long-term

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<sup>9</sup> Queensland is the only state which is not signed to NIIS at the time of writing this report.

<sup>10</sup> '2014-15 State Budget - Media Releases', Government of South Australia, accessed at <http://www.statebudget.sa.gov.au/media.html>

nature of managing these claims as well as the significant long-term capital requirements involved mean these types of risks are best underwritten by the government.

NDIS/NIIS means that catastrophic personal injuries will be covered, and this report only considers the private underwriting (privately underwritten insurance) of non-catastrophic personal injuries.<sup>11</sup> Given a large proportion of injuries are non-catastrophic, reforms in the area could provide additional economic benefits.

### ***2.3 The private underwriting argument***

The general, yet pivotal, benefits of privatisation are theoretically posited to be:

- improved efficiency
- removal of political interference in scheme operation
- longer term view and planning
- greater imperative to perform due to shareholders
- increased competition and choice
- additional revenue for the government.

There are however, several potential reasons why privatisation should not occur in some instances. These include:

- the presence of a natural monopoly
- potential risk to the public interest
- possible loss of government's dividends or an important income stream
- issues arising in relation to appropriate regulation of the private bodies.<sup>12</sup>

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<sup>11</sup> This covers both workers compensation and compulsory third party related insurance claims. Non-catastrophic personal injuries are based on the severity categories defined by Safe Work Australia and include: short absence (less than 5 days off work), long absence (five days or more off work and return to work on full duties) and partial incapacity (five days or more off work and return to work on reduced duties or lower income (Safe Work Australia (2012), 'The cost of work related injury and illness for Australian employers, workers and the community: 2008-09', *Safe Work Australia, March 2012*)

<sup>12</sup> Ibid.

The Productivity Commission noted key arguments in support of monopoly provision of workers compensation.<sup>13</sup> They are:

- Some participants in the Productivity Commission inquiry argued that a public monopoly insurer is needed to capture potential economies of scale and scope as well as achieve the benefits of being a single purchaser of services. However, evidence of economies of scale were largely confined to administration and this of itself would not justify sole provision. Scale economies are also possible under private underwriting schemes, given most of the private underwriters are already providing general insurance products for their clients. The Commission also notes that private insurers manage small risk pools in a few small jurisdictions, therefore the stated argument may not hold for the public provision of statutory insurance products.
- Another argument to support government underwriting is that given workers' compensation insurance is mandatory, public monopoly provision would ensure that premiums are affordable and stable for employers. Competitive private provision, on the other hand, may lead to significant fluctuations in premiums for employers, particularly small employers. This would be a consequence of private insurers responding to long term insurance market cycles, premium competition with each other and the inability to cross-subsidise between non-tied employers.
- Another argument by proponents of public monopoly provision is that because of the long-tail claims nature of workers compensation insurance, claimants could be exposed to private insurer failure or private insurers could avoid catering for certain workplace risks, for example, by setting prohibitively high premiums. Long-tail claims arise, for example, where symptoms of many diseases may not become apparent for years after an incident occurred or where injured or ill workers require compensation for the rest of their lives.

The Productivity Commission also noted key arguments in the support of competitive private provision of workers compensation:<sup>14</sup>

- Proponents of private underwriting argued in the Productivity Commission inquiry that competitive private provision brings choice to employers, leads to more efficient premiums, encourages greater innovation in service provision and drives cost-efficiencies.
- It is also argued by proponents that, with competitive private provision, the financial risks are taken by private insurers rather than governments

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<sup>13</sup> Productivity Commission (2004) *National Workers' Compensation and Occupational Health and Safety Frameworks*, Productivity Commission Inquiry Report, No 27, 16 March 2004.  
[http://www.pc.gov.au/\\_data/assets/pdf\\_file/0006/18546/workerscomp.pdf](http://www.pc.gov.au/_data/assets/pdf_file/0006/18546/workerscomp.pdf)

<sup>14</sup> Ibid.

on behalf of their taxpayers. This can introduce a measure of financial discipline and accountability.

Based on the literature and arguments from both sides, the Productivity Commission concluded that:

***‘The literature does not provide a powerful case for either public monopoly or competitive private provision of workers’ compensation insurance. However, the Commission considers that, on balance, private provision is preferred on grounds that: private capital is directly at risk; competition in the marketplace is likely to generate incentives for efficiency and innovation; and there is greater transparency of any governmental influence over premiums. Further, the risk of private insurer failure can be reduced by prudential regulation. However, even in competitive schemes, the Commission notes that pressure can be applied to governments as funders of last resort in the case of significant market failure.’<sup>15</sup>***

A number of government reviews have also noted the potential benefits associated with privatisation across a range of industries. For example:

- In the Productivity Commission’s *Inquiry Report on Public Infrastructure*, the Commission stated that ‘there is no continuing case for the retention of certain infrastructure in public hands.’<sup>16</sup> Similarly, in its *Final Report on the Electricity Network Regulation Framework*, the Productivity Commission noted that ‘the evidence appears to suggest that state-owned enterprises are less efficient than their private sector peers. The best remedy is privatisation’.<sup>17</sup>
- The Queensland Commission of Audit report referred to ‘substantial international evidence that privatised government enterprises operate more cost effectively when they are allowed to operate without government interference’.<sup>18</sup>

As such, it has widely been accepted that private sector competition can bring a number of benefits to businesses that have been previously managed by public sector provided the transfer is done correctly and the sector has

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<sup>15</sup> Productivity Commission (2004) National Workers’ Compensation and Occupational Health and Safety Frameworks, Productivity Commission Inquiry Report, No 27, 16 March 2004, page 323.  
[http://www.pc.gov.au/\\_data/assets/pdf\\_file/0006/18546/workerscomp.pdf](http://www.pc.gov.au/_data/assets/pdf_file/0006/18546/workerscomp.pdf)

<sup>16</sup> Productivity Commission (2014), ‘Draft Inquiry Report on Public Infrastructure’, *Australian Government Productivity Commission*, page 24.

<sup>17</sup> Productivity Commission (2013) *Final Report on the Electricity Network Regulation Framework*, page 263.

<sup>18</sup> Queensland Commission of Audit (2013) ‘Final Report – February 2013’, *Queensland Government*, page 7 available at <  
<http://www.commissionofaudit.qld.gov.au/reports/final-report.php>>

the required characteristics (e.g. no monopolies, not genuine public good characteristics, etc).

A common observation is that the efficacy of privatisation is dependent on the industry itself and its participants.

In submissions to the Financial System Inquiry and the Competition Policy Review, Suncorp<sup>19</sup> and the Insurance Council of Australia<sup>20</sup> argued that private underwriting of statutory insurance could indeed benefit the economy in a number of ways. The expectation is that these benefits would outweigh any negative effects of which could be mitigated through an appropriate private underwriting strategy with sound regulatory frameworks.

Broadly, the potential benefits of private underwriting of the workers compensation and CTP schemes include:

- **Better capital management** – the introduction of independent prudential oversight by APRA, the enhanced transparency, the differing rates of return, and the need to perform for stakeholders reduces the probability of schemes running into deficit.
- **Reduced risk to government** – reduced financial exposure (and hence risk) to government balance sheets and thus taxpayers, and in doing so protecting government credit ratings. It also allows for scarce government revenue to be freed up and reallocated to other critical areas of government activity, at the lowest possible cost of funding for tax payers.
- **Increased competition** – private underwriting would allow more market participants (i.e. private insurers) to enter the market depending on whether they feel they can competitively play in the sector and adapt to changing consumer choices. This addition of more market participants within the sector thus increases competition driving greater insurance policy choice and competitive offers to ‘win’ consumers.
- **Improved innovation** – private companies would have the impetus to implement innovative solutions concerning rehabilitation and return-to-work processes. This improves productivity and wellbeing within the community by potentially enabling people to recover sooner from their injuries. It also means an improvement in support for injured people to be socially and financially independent as soon as possible after an injury.

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<sup>19</sup> Suncorp Group (2014), ‘Competition Policy Review 2014’, *Suncorp Group Limited*, available at <<http://competitionpolicyreview.gov.au/files/2014/06/Suncorp.pdf>>

<sup>20</sup> Insurance Council of Australia (2014), ‘Submission to Harper Review’, available at <[http://competitionpolicyreview.gov.au/files/2014/06/ICA\\_updated.pdf](http://competitionpolicyreview.gov.au/files/2014/06/ICA_updated.pdf)>

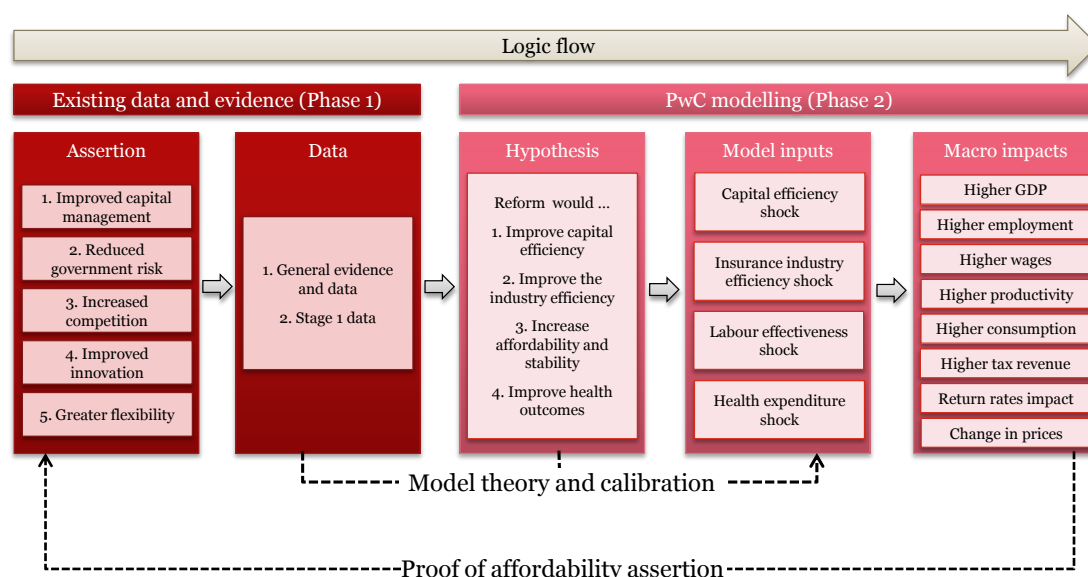
- **Greater flexibility** – private firms generally have greater flexibility and can respond quicker to emerging claim trends and challenging economic environments compared to public bodies.

## 3 The approach

### 3.1 The framework

An overarching analytical framework was utilised for both Phases 1 and 2 to ensure consistent and reliable results through the alignment of data collection with required modelling inputs and results. Figure 2 illustrates this framework. Phase 1 was predominantly data and evidence gathering which was then drawn on in Phase 2 to form evidence based hypotheses and agreed assumptions that were used as inputs into PwC's economy-wide modelling platform.

**Figure 2: The overarching framework**



This process used is similar to that as used by the Productivity Commission when conducting its analysis of the National Reform Agenda. The challenge of being unable to find sufficient supporting evidence from the accident compensation sector resulted in certain scenarios being developed in conjunction with Suncorp which were used as final inputs in the economy-wide modelling. These assumptions formed the 'shocks' or direct effects to the economy and thus the modelling results are based on developed scenarios.

The case studies were quantitatively assessed using the Monash Multi-Regional Forecasting Model (MMRF). The MMRF model is an

Australian state-based model aggregated to give national economic impacts (including more than 60 detailed sectors).<sup>21</sup>

The modelling does not make explicit allowance for some characteristics of how schemes are underwritten. This is due to limited detailed information regarding current arrangements and uncertainties around any potential privatisation. This potentially impacts on the following stakeholders:

- Government - the lack of detailed information on the current structure (including cost trends, funding and liability profiles) means that we have not addressed the:
  - need for governments to adequately capitalise schemes to meet regulatory requirements prior to privatisation
  - uncertainty associated with the value of schemes and hence the profit/loss of any potential sale.
- Private – other than published APRA regulatory requirements, a lack of specific details mean that we have not addressed:
  - impact of acquiring the scheme (by forgoing potential higher or lower rates of return elsewhere in the economy)
  - internal capital holding preferences above the prescribed capital amount for individual private scheme operators.

## **3.2 The available evidence**

### **3.2.1 Scheme difference difficulties – Comcare evidence**

Because of scheme design differences between publicly and privately underwritten workers compensation schemes it is difficult to disentangle and extract the potential benefits of privately underwritten schemes across jurisdictions in Australia.

The Comcare scheme is an integrated safety, rehabilitation and compensation system for federal workers and their employers, regardless of which state or territory they operate in or where workers are based. Comcare covers the following employers:

- Commonwealth Government agencies, statutory authorities (excluding members of the Australian Defence Force), the ACT Government and its agencies.

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<sup>21</sup> More details of the model features can be found in Appendix A.

- National employers who have been granted a self-insurance licence for workers compensation by the Safety, Rehabilitation and Compensation Commission.

Given Comcare has both public (Comcare) and private (self-insurers) underwriters operating in the same scheme, some indicative differences between the operational efficiencies of Comcare and self-insurers may be deduced given scheme design issues are somewhat alleviated (see Appendix B). The below points highlight some key differences which have been obtained from the Safety, Rehabilitation and Compensation Commission's (SRCC) 2012-13 *Annual Report*:<sup>22</sup>

- Average payments, medical and rehabilitation expenditure, legal, administrative and regulatory costs are all lower per claim for self-insurers than for Comcare.
- Claim continuance rates beyond 11 weeks are lower for self-insurers compared with the publicly managed Comcare.

The limitation with this case study is the heterogeneous nature of employees and businesses covered under both schemes (i.e. public sector agencies compared with private corporations operating in different industries and with different corporate cultures). This is illustrated in Section 3.2.3 where scheme claim incident rates and return to work rates are compared. Comcare public sector agencies have the lowest claim incident frequency rate across all the jurisdictions, which may influence the profile of claims which are reported.

### 3.2.2 *Productivity and Industry Commission perspectives*

The Productivity Commission's view is that the private underwriting of workers compensation scheme would be desirable.<sup>23</sup>

However, Productivity Commission research on the relative merits of public and private underwriting suggests that sound management can be more important than the form of underwriting. The characteristics of private underwriting which promote themselves according to the Productivity Commission's report are:

- capital risk being accepted by the capital markets
- competition in the marketplace, with incentives for efficiency and innovation

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<sup>22</sup> Safety, Rehabilitation and Compensation Commission (2013) 'SRCC Annual Report 2012-13'. *Comcare*, available at <[http://www.srcc.gov.au/publications/srcc\\_corporate\\_documents/srcc\\_annual\\_reports/srcc\\_reports/srcc\\_annual\\_report\\_2012\\_-\\_2013](http://www.srcc.gov.au/publications/srcc_corporate_documents/srcc_annual_reports/srcc_reports/srcc_annual_report_2012_-_2013)>

<sup>23</sup> Industry Commission (1995), 'Work, Health and Safety: An Inquiry into Occupational Health and Safety', *Industry Commission Inquiry Report*, No. 47, 11 September 1995, available at <<http://www.pc.gov.au/industry-commission/inquiry/47workhe>>

- greater transparency of any governmental influence over premiums.

The Industry Commission<sup>24</sup> estimated that in 1995, only 25 per cent of the total cost of work-related injury and disease was due to the direct costs of work-related incidents. The remaining 75 per cent was accounted by indirect costs such as lost productivity, lost income and quality of life.

The Industry Commission<sup>25</sup> also modelled the economy-wide gains of reducing the level of work-related injury and disease. This study assumed a 10 per cent reduction in the incidence of injury and disease, which appears a plausible assumption to assess the potential gains from private underwriting of non-catastrophic personal injury schemes in Australia. Key findings from the Industry Commission's (1995) study of a 10 per cent reduction in the incidence of injury and diseases across the Australian economy include the following improvements:

- real GDP — 0.08 per cent
- real wage — 0.16 per cent
- employment — 0.02 per cent.

### 3.2.3 *Safe Work Australia research*

Safe Work Australia leads the development of national policy to improve work health and safety and workers compensation arrangements across Australia. It produces an annual publication, the Comparative Performance Monitoring Report, discussing comparisons of work health and safety and workers compensation schemes in Australia and New Zealand. Though not directly comparable due to the scheme design features, Safe Work Australia reports that funding ratios, ratio of assets to net outstanding claim liabilities, of centrally operated (government underwriting) schemes are different to the private schemes.<sup>26</sup>

Figure 3 and Figure 4 illustrate differences in claim incident frequency rates and return to work rates between jurisdictions.<sup>27</sup>

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<sup>24</sup> Industry Commission (1995), 'Work, Health and Safety: An Inquiry into Occupational Health and Safety', *Industry Commission Inquiry Report, No. 47*, 11 September 1995, available at <<http://www.pc.gov.au/industry-commission/inquiry/47workhe>>

<sup>25</sup> Ibid., Appendix R

<sup>26</sup> Safe Work Australia (2014), 'Comparative Performance Monitoring Report', *Safe Work Australia, Sixteenth Edition, October 2014*, available at <<http://www.safeworkaustralia.gov.au/sites/SWA/about/Publications/Documents/884/CPM16-Web.docx>>

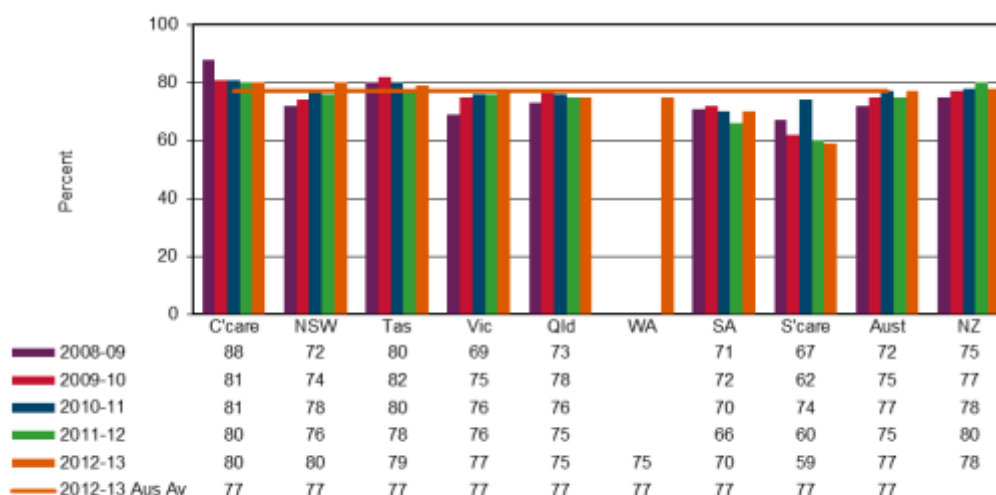
<sup>27</sup> Safe Work Australia (2014), 'Comparative Performance Monitoring Report' sixteenth edition, October

**Figure 3: Indicator 4 – Incidence rates of serious\* injury and disease claims by jurisdiction**



\* Includes all accepted workers' compensation claims involving temporary incapacity of one or more weeks compensation plus all claims for fatality and permanent incapacity.

**Figure 4: Indicator 20 – Current return to work rate**



The highest Current Return To Work rates were recorded in New South Wales and Comcare (80 per cent each), Tasmania (79 per cent) and Victoria (77 per cent).

The two indicators shown in Figure 3 and Figure 4 do not provide any compelling evidence that the privately underwritten workers compensation jurisdictions (Tasmania and Western Australia) have better outcomes compared with the other jurisdictions.

Using Safe Work Australia data can provide useful insights into scheme performance against national averages, although scheme design differences between jurisdictions mean these figures may not be directly comparable.

Safe Work Australia also estimates the cost of work-related injury and illness for Australian employers, workers and the community. Its latest report shows that the total economic cost of work-related injuries and illnesses for 2008–09 is estimated to be \$60.6 billion, representing 4.8 per cent of GDP.<sup>28</sup> This report estimated total costs, consisting of production disturbance costs, human capital costs, medical costs, administrative costs and other costs. Safe Work Australia's estimates of the costs of work related injury and illness for NSW and SA are provided in Table 3.

**Table 3: Cost of work-related injury and illness (\$million),\* 2008-09**

	New South Wales	South Australia
Injury (\$million)	11,100	2,000
Disease (\$million)	9,200	2,100
<b>Total (\$million)</b>	<b>20,300</b>	<b>4,100</b>
% of GSP	4.9	5.0
Unit cost (\$/case)	94,700	87,100

Source: Safe Work Australia (2012), 'The Cost of Work-related Injury and Illness for Australian Employers, Workers and the Community: 2008-09', Safe Work Australia, Canberra, March 2012, p.29, Table 2.3a

\* includes catastrophic and non-catastrophic injuries.

Reduction of any of these costs through better case management and faster return to work can be beneficial to the economy.

### 3.3 Economic modelling

The inability to source sufficient data for direct comparative modelling from the accident compensation sector and the inability to control for differences in scheme design led to scenarios being developed in conjunction with Suncorp to be used as inputs into the economy wide modelling.

Key assumptions are:

- a 10 per cent improvement in capital productivity under the private underwriting
- a 5 per cent improvement in case management for non-catastrophic personal injuries leads to a faster recovery and improved labour productivity

<sup>28</sup> Safe Work Australia (2012), 'The Cost of Work-related Injury and Illness for Australian Employers, Workers and the Community: 2008-09', Safe Work Australia, Canberra, March 2012, available at <<http://www.safeworkaustralia.gov.au/sites/SWA/about/Publications/Documents/660/Cost%20of%20Work-related%20injury%20and%20disease.docx>>

- a 10 per cent reduction in health expenditure associated with non-catastrophic injuries.

The above impact scenario was applied to the MMRF model to estimate the potential economy-wide benefits of private underwriting of workers compensation schemes in NSW, SA and the CTP scheme in SA.

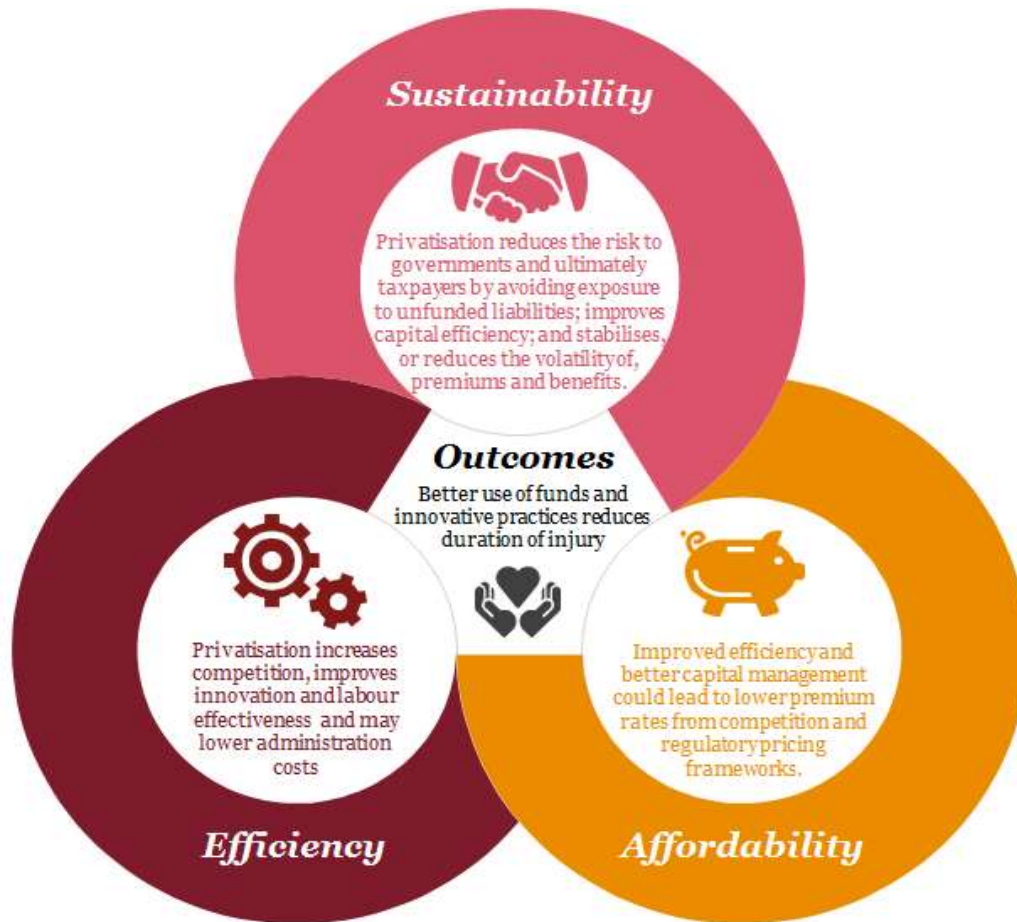
These scenarios do not take into account the cost of transferring a publicly managed scheme to become privately underwritten nor should it to be interpreted as a complete cost-benefit analysis. An inability to source sufficient data for direct comparative modelling from the accident compensation sector, and the inability to control for differences in scheme design, resulted in scenarios being developed in conjunction with Suncorp which were used as inputs into the economy-wide modelling. Further analysis could include, among other things:

- increased capital holding required by the private sector to satisfy APRA regulatory requirements and executive board preferences and the implications of differing tax treatment
- transaction and regulatory costs involved in the completion of the acquisition (including taking into account any potential opportunity cost to the private sector in acquiring the scheme).

### *3.3.1 Benefit trade-offs*

At the heart of unpacking the potential impacts of private underwriting is a trilogy culminating around the outcomes of the injured persons. These four overarching benefit areas provide the catalyst for other flow-on benefits of private underwriting. Given many of the potential benefits of private underwriting stem from this interconnected flow of impacts, the research and modelling focused on the components of this trilogy and how they reacted, or were changed, in relation to each other under the private underwriting scenario.

**Figure 5: Potential benefits of private underwriting and trade-offs**



### 3.3.2 The effects

To estimate the above identified potential benefits (Figure 5) that may eventuate from the private underwriting the modelling assumed, developed based on discussions with Suncorp industry experts, direct potential benefits from three aspects of privately underwritten schemes. A discussion of these three core benefit aspects follows.

#### **Sustainability — improved capital management lead to higher capital productivity in the sector**

Capital management is a key requirement for the private sector as it directly relates to their performance and viability as a business. Over the long-run, it has been assumed that the workers compensation and CTP capital managed by private insurers earns a higher return to shareholders and other beneficiaries on average after accounting for risk, gearing, cost of capital and APRA regulatory requirements.

### Relationship between rate of return and capital productivity

The gross rate of return is defined as the ratio of the gross operating surplus (G) to the gross stock of assets (K). In analysing changes in the gross rate it is helpful to decompose it into the share of gross operating surplus in gross value added (Y), and the ratio of gross value added to the capital stock, that is:

$$\frac{G}{K} = \frac{G}{Y} \frac{Y}{K}$$

$\frac{G}{K}$  is gross rate of return

$\frac{G}{Y}$  is profit share

$\frac{Y}{K}$  is capital productivity

For a given profit share of the insurance industry and consumption of capital, increase in capital productivity (an assumption in this study) will increase the rate of return for the industry. Rate of return is endogenous in the economy-wide model. The long-run average normal rate of return for the insurance capital in NSW is 4.1 per cent and in SA is 3.9 per cent (model database).

Better capital management is also assumed to be linked to the longevity or sustainability of the scheme itself and thus with better management comes greater stability in premiums. That is, with better capital management, there is less need to change premium levels or benefit payouts and thus there is a reduction in premium volatility providing greater consistency for general business when it comes to forecasting future financial results. Better capital management may also lead to lower premiums to businesses. As Safe Work Australia noted 'lower administrative costs along with strong financial and claims management and business efficiencies allows for lower premiums'.<sup>29</sup>

To model this impact, a shock was made to the capital productivity of the sector where capital productivity is measured on how well capital is used for producing output for the industry. Consequently, it is an important factor in explaining material standards of living and is at the heart of determining rates of return.

<sup>29</sup> Safe Work Australia (2013) *Comparative Performance Monitoring Report*, 15<sup>th</sup> Edition, page 22.

Based on previous Productivity Commission research,<sup>30</sup> microeconomic reforms in the economy appear to change rates of return on capital on average. Understanding and quantifying the capital productivity gains associated with the statutory insurance sector reforms also unravel the relationship between capital, rate of return and premiums. Today's collection of premiums is setting aside a part of premiums from current claims to be used for future payments. The higher the returns, the less business has to pay for the future premiums and the greater the ability they have of employing labour or increasing wages in the long-run.

Unfunded claims liabilities can be an issue for the relevant government under publicly underwritten schemes that are not subject to APRA regulations for private insurers. Private underwriting moves this risk from the public sector to the private sector. This improves the government balance sheet and also allows for government expenditure to remain focussed on priority areas such as education and health. As an additional benefit, better balance sheet management will impact on state government credit ratings. A faster expected recovery achieved under the private scheme could potentially reduce the direct health expenditure required in the economy.

The above impact scenario identified direct expected impacts was applied to the MMRF model to estimate the potential economy-wide benefits of private underwriting of workers compensation schemes in NSW, SA and the CTP scheme in SA.

### **Efficiency — Faster return to work increases labour productivity**

To capture the potential improvement in efficiency arising from private underwriting, the economy was 'shocked' through an improvement in labour effectiveness. The rationale for such an approach can be found in an independent study of the NSW scheme as:

***'self-insurers and specialist insurers appear to be more incentivised to invest more in prevention and early intervention than agents under the Nominal Insurer Scheme as their private underwriting models set up stronger incentives to reduce the number and cost of claims. These insurers are believed to have experienced a greater reduction in more serious psychological injury claims by better identifying cases early on that require a different and specific approach to case management'.<sup>31</sup>***

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<sup>30</sup> Productivity Commission (2007), 'Potential Benefits of the National Reform Agenda', *Australian Government Productivity Commission, March 2007*, available at <<http://www.pc.gov.au/research/commission/national-reform-agenda>>

<sup>31</sup> The Centre for International Economics (2014), 'Statutory review of the Workers Compensation Legislation Amendment Act 2012'. *The Centre for International Economics, 30 June 2014*, Page 18. Available at <[http://www.parliament.nsw.gov.au/prod/lc/lctabdoc.nsf/cccc870c6126b1b6ca2571ee000318a4/d58c51e9e1fb2838ca257d080004ebdd/\\$FILE/95655537.pdf/CIE%20Final%20Report\\_NSW%20Workers%20Comp%20Statutory%20Review%20-%20300614.pdf](http://www.parliament.nsw.gov.au/prod/lc/lctabdoc.nsf/cccc870c6126b1b6ca2571ee000318a4/d58c51e9e1fb2838ca257d080004ebdd/$FILE/95655537.pdf/CIE%20Final%20Report_NSW%20Workers%20Comp%20Statutory%20Review%20-%20300614.pdf)>

Hence, this shock is associated with improved care, faster return to work rates and increased flexibility in claim management which have important and significant effects on both NSW and SA jurisdictions as well as the Australian economy. This shock captures the potential improvement in labour productivity for the injured through assuming a quicker return to work, thus also resulting in increased labour effectiveness due to the injured being able to contribute to the economy in a quicker fashion (even accounting for presenteeism issues).

Importantly, this report does not model health outcomes, rather the model presumes best consumer outcomes are core objectives of regulation in the system. As such, reductions in the health system burden are captured through improvements in delivery, without reducing the current or future level of care.

# Workers Compensation — New South Wales

## Key findings

- Private underwriting of NSW WorkCover could create around \$3 billion of additional economic output in NSW by the end of 2024–25 (\$3.3 billion across Australia).
  - Around 85 per cent of the increase in industry output is driven by the services sector, with another 10 per cent driven by construction and manufacturing output.
- NSW Government taxation revenue could increase by over \$80 million, driven by increases in property and payroll taxes.
  - The Commonwealth Government could also receive increased taxation revenue of over \$530 million. This increase is driven by strength in corporate, income and GST taxation collections (see Table 6).
- The increase in output and taxation revenue is driven by strong growth in productivity, with output per worker in NSW increasing by \$691 by the end of 2024–25.
- Higher productivity gains could lead to increased wage and employment growth.
  - Employment is estimated to increase by almost 1,000 persons by the middle of the decade. The increase in employment is driven predominantly by construction and business services employment.
  - Real wages (wages adjusted for inflation) are estimated to be one quarter of a percentage point higher.
  - Increased employment and real wages also leads to household consumption to be \$1.2 billion higher at the end 2024–25.

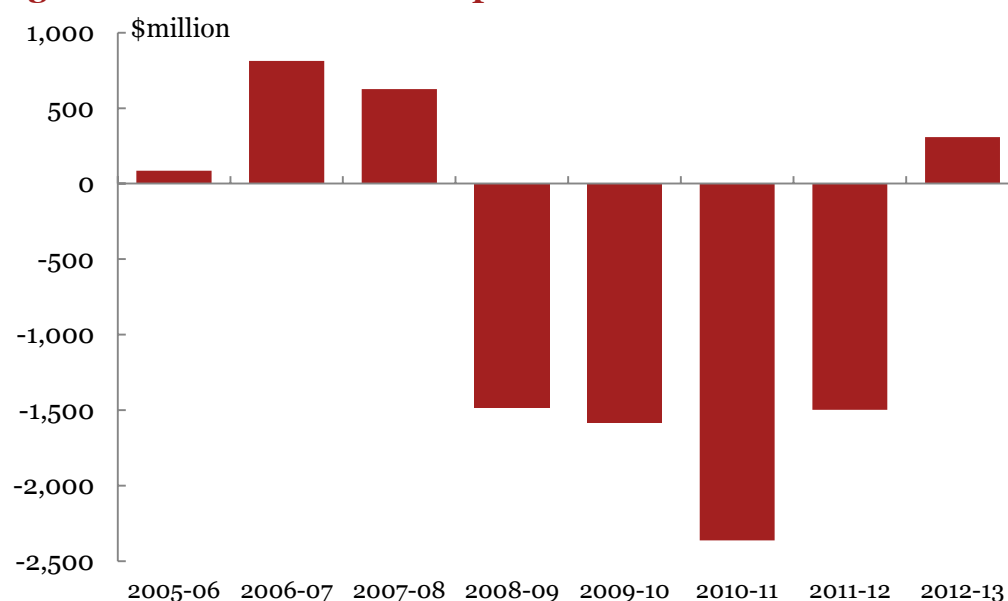
## 4 Workers compensation – NSW

### 4.1 Background on NSW Workers Compensation Scheme

The scheme operates under the *Workers Compensation Act 1987* and the *Workplace Injury Management and Workers Compensation Act 1998*. While there are seven privately appointed scheme agents (and 59 self-insurers) that manage claims and collect premiums, the statutory scheme is publicly underwritten. The scheme provides a service to around 270,000 employers, which covers almost 3.2 million NSW workers. As of 2012-13, the scheme holds \$15.4 billion of assets, against \$15.1 billion of liabilities.

Recent NSW Government reforms to workers compensation in 2012, have seen an improvement in the balance sheet of the scheme. In 2012-13, net assets were positive for the first time since 2007-08 (see Figure 6). This was driven by a reduction in net claims incurred (around 35 per cent since 2007-08) and an increase in net premium revenue.

**Figure 6: NSW Workers Compensation Scheme Net Assets**



Source: NSW WorkCover

In June 2012, the NSW Government introduced reforms to workers compensation legislation. Some of the key features of the reforms included:

- a focus on assisting and encouraging workers to return to work after an injury
- improved benefits for seriously injured workers

- the introduction of work capacity assessments that give the worker and the employer a better understanding of an injured worker's capacity to work
- restoring the scheme to financial sustainability without increasing employer premiums.<sup>32</sup>

The Centre for International Economics (CIE) report on the statutory review of the *Workers Compensation Legislation Amendment Act 2012* argued that it is too early to assess whether changes to date are sustainable.<sup>33</sup>

- The performance of NSW scheme agents as at June 2013<sup>34</sup> indicates that differences can and do arise between the average duration of claims of particular agents. That is, the duration of claims may be impacted by how an agent decides to manage a claim through its available resources, processes and technology.
- Looking at the results for policies with annual premium between \$50,000 and \$100,000 and for those between \$100,000 and \$500,000, it can be seen that the average days of incapacity between agents varies significantly (with lower numbers indicating better performance). The following figures illustrate the proportional difference between the lowest and highest performer – that is, the difference between the shortest and longest duration of incapacity.

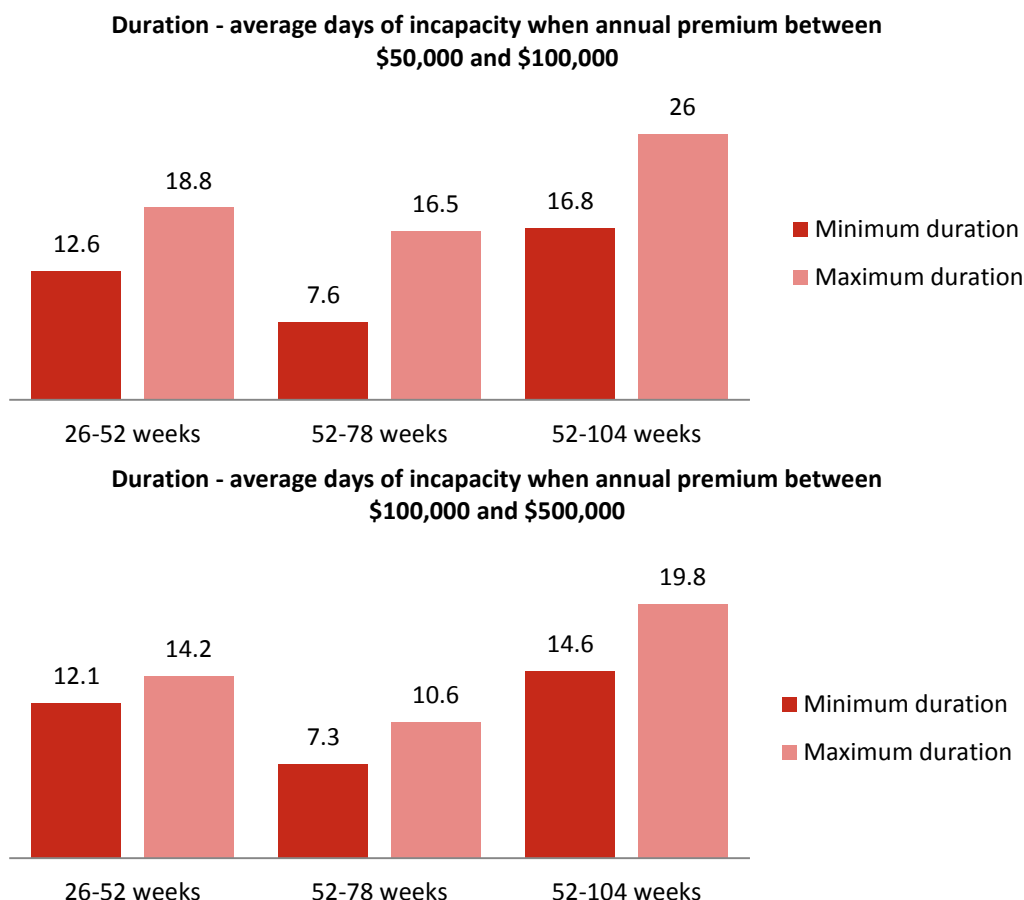
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<sup>32</sup> WorkCover Authority of NSW (2013), 'Annual Report 2012-13', *NSW Government WorkCover*, available at <<http://www.workcover.nsw.gov.au/formspublications/publications/Documents/workcover-authority-annual-report-2012-2013-1116.pdf>>

<sup>33</sup> The Centre for International Economics (2014), 'Statutory review of the Workers Compensation Legislation Amendment Act 2012'. *The Centre for International Economics*, 30 June 2014. Available at <[http://www.parliament.nsw.gov.au/prod/lc/lctabdoc.nsf/cccc870c6126b1b6ca2571ee000318a4/d58c51e9e1fb2838ca257d080004ebdd/\\$FILE/95655537.pdf/CIE%20Final%20Report\\_NSW%20Workers%20Comp%20Statutory%20Review%20-%20300614.pdf](http://www.parliament.nsw.gov.au/prod/lc/lctabdoc.nsf/cccc870c6126b1b6ca2571ee000318a4/d58c51e9e1fb2838ca257d080004ebdd/$FILE/95655537.pdf/CIE%20Final%20Report_NSW%20Workers%20Comp%20Statutory%20Review%20-%20300614.pdf)>

<sup>34</sup> WorkCover NSW (2014), 'Scheme Agent Performance', *NSW Government*, June 2013, no. WC01299. available at <<http://www.workcover.nsw.gov.au/formspublications/publications/pages/scheme-agent-report-june-2013.aspx>>

**Figure 7: Performance difference – duration differences between agents**



Source: NSW WorkCover

## 4.2 Modelling assumptions

### 4.2.1 Better capital management – capital productivity

Capital management is a key performance requirement for the private sector. Over the long-run, it is assumed that the workers compensation capital managed by private insurers on average provide higher services per unit of capital or same level of services with lower capital (capital productivity).

The following underlying assumptions (based on 2012-13 data) have been used for the capital productivity assumption of the NSW Workers Compensation scheme:

- The NSW finance and insurance industry gross value-add (Y) is

\$57 billion (or 12 per cent) of NSW's economy.<sup>35</sup>

- The NSW finance and insurance industry's gross operating surplus and mixed income (profits) (G) is \$32 billion,<sup>36</sup> accounting for 56 per cent of industry gross value-add.
- Estimated capital stock (K) in the industry is \$175 billion.<sup>37</sup>
- The gross rate of return is defined as the ratio of the gross operating surplus (P) to the gross stock of assets (K). Gross rate of return is calculated as  $32/175 = 19$  per cent (includes an adjustment for depreciation to obtain net returns before tax). In analysing changes in this rate, it is helpful to decompose it into the share of gross operating surplus in gross value added (Y), and the ratio of gross value added to the capital stock (i.e.  $G/K = G/Y \cdot Y/K$ ). The G/K ratio is referred to as the gross rate of return, G/Y as the profit share, and Y/K as capital productivity.
- NSW workers compensation total assets value in 2012-13 is \$15.4 billion.<sup>38</sup>

When statutory insurance capital is moved from WorkCover NSW to private insurers, it has been assumed that the same capital is efficiently managed by private insurers due to competition, economies of scale and scope, and incentives offered to investment managers to cover the current and future claims of injured workers. PwC notes that whilst scheme design differences are present, evidence shows that:<sup>39</sup>

- Over the past 5 five years, the average cost per claim for WorkCover NSW has increased by over 7 per cent per annum, with direct payments and services<sup>40</sup> driving the majority of this increase. This has resulted in the average cost per claim in NSW being 3.6 per cent above the national average.

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<sup>35</sup> Australian Bureau of Statistics (2013), '5220.0 - Australian National Accounts: State Accounts 2012-13' *Australian Bureau of Statistics*, available at <<http://www.abs.gov.au/AUSSTATS/abs@.nsf/DetailsPage/5220.02012-13?OpenDocument>>

<sup>36</sup> Australian Bureau of Statistics (2013), '5220.0 - Australian National Accounts: State Accounts 2012-13' *Australian Bureau of Statistics*, available at <<http://www.abs.gov.au/AUSSTATS/abs@.nsf/DetailsPage/5220.02012-13?OpenDocument>>

<sup>37</sup> PwC estimate based on the ABS data.

<sup>38</sup> WorkCover Authority of NSW (2013), 'Annual Report 2012-13', *NSW Government WorkCover*, available at <<http://www.workcover.nsw.gov.au/formspublications/publications/Documents/workcover-authority-annual-report-2012-2013-1116.pdf>>

<sup>39</sup> The following points have been calculated from data obtained from the Safe Work Australia website (see <http://www.safeworkaustralia.gov.au/sites/swa/statistics/pages/statistics>) and Safe Work Australia (2013) *Comparative Performance Monitoring Report*, 15<sup>th</sup> Edition.

<sup>40</sup> Direct payments and services' include compensation paid to injured employees and the cost of medical treatment and rehabilitation costs.

- WorkCover NSW administrative costs<sup>41</sup> are over 35 per cent higher than the average privately managed scheme. Further, WorkCover NSW administrative costs are the third highest in the country after Victoria (publically underwritten) and WA (privately underwritten).

Based on the above data, PwC has estimated a capital efficiency of 0.8 per cent in the compared to the *status quo*. Key steps in the calculation are:

- baseline industry output (Y) to capital (K) ratio is  $57/175=0.325$
- when the scheme is underwritten by private insurers, the output (Y) to capital (K) ratio becomes  $57/190=0.30$  for a given baseline output (Y)
- percentage change in output to capital ratio is 8 per cent ( $0.30/0.325$ )
- an assumption is made that capital is managed 10 per cent more efficiently. Ten per cent of 8 per cent gives us a capital efficiency of 0.8 per cent. This capital productivity shock is exogenously imposed in the economy wide model to estimate potential flow-on impacts on the NSW economy. Rate of return achieved on this capital is endogenous to the model.

#### 4.2.2 *Faster return to work – labour productivity*

Labour market impacts associated with improved care, faster return to work rates and increased flexibility in claim management have important effects on both the NSW and Australian economy.

- Based on the number of employed persons by industry and the incidence rate by industry, the number of non-catastrophic injuries in NSW is estimated by each industry.
- An assumption that **5 per cent** of injured persons can return to work faster and contribute to the economy by participating in market activities.
- Based on the 5 per cent assumption, the following labour productivity assumptions are calibrated and applied to the economy-wide model to estimate the NSW economy-wide benefits (see Table 4).
  - On average, 0.47 per cent in labour productivity gains can be potentially achieved.

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<sup>41</sup> Administrative costs include insurance operation costs, regulation and dispute resolution costs and also other administration costs relating to corporate administration. We also note the public sector conducts other activities which are currently outside the realm of private sector insurers (e.g. licensing and registration cards for high risk work).

- For comparison, in 1995 the Industry Commission estimated that an average of 0.92 days lost per worker per year translated into a 0.38 per cent decrease in the effectiveness of the labour force.<sup>42</sup>
- Productivity gains are related to industry incidence rate differences and the number of employed persons in each industry.

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<sup>42</sup> Industry Commission (1995), 'Work, Health and Safety: An Inquiry into Occupational Health and Safety', *Industry Commission Inquiry Report, No. 47, 11 September 1995*, available at <<http://www.pc.gov.au/industry-commission/inquiry/47workhe>>

**Table 4: Potential gains in labour productivity by industry in NSW**

Industry	%
Agriculture, forestry and fishing	0.228
Mining	0.352
Manufacturing	0.239
Electricity, gas, water and waste services	0.820
Construction	0.267
Wholesale trade	0.388
Retail trade	0.667
Accommodation and food services	0.467
Transport, postal and warehousing	0.240
Information Media and Telecommunications	0.704
Rental, hiring and real estate services	0.676
Professional, scientific and technical services	0.685
Administrative and support services	0.685
Public administration and safety (private)	0.610
Education and training (private)	0.649
Health care and social assistance (private)	0.355
Arts and recreation services	0.595
Other services	0.258
<b>Total</b>	<b>0.47</b>

Source: PwC estimates based on the ABS data and Safe Work Australia data

### 4.2.3 Reduced health expenditure

Minor injuries create demand for medical and rehabilitation services that would not otherwise exist. Workers compensation pays for most of these services. A faster expected recovery achieved could potentially save health expenditure.

Potential savings associated with the medical and rehabilitation expenditure are provided below:

- NSW WorkCover medical expenditure in 2012-13 was around \$700 million<sup>43</sup>
- total health expenditure in 2012-13 was just over \$30 billion
  - Share is  $700/30,000 = 2.3$  per cent
  - An assumption of a 10 per cent reduction in medical and rehabilitation expenditure due to better claims management is modelled to reduce health expenditure in NSW by 0.23 per cent.

<sup>43</sup> WorkCover Authority of NSW (2013), 'Annual Report 2012-13'. NSW Government WorkCover, available at <http://www.workcover.nsw.gov.au/formspublications/publications/Documents/workcover-authority-annual-report-2012-2013-1116.pdf>

## 4.3 Potential economic effects of improved outcomes

### 4.3.1 Summary of economic effects

The outcomes of the economic modelling are highlighted in Table 5 and Table 6 below.

**Table 5: Summary of NSW economic benefits (cumulative deviation from baseline)**

	2014-15	2019-20	2024-25
<b>New South Wales</b>			
Real Gross State Product (\$m)	1,664	2,493	3,067
State tax revenue (\$m)	34	64	81
Real Wages (% point difference)	0.00	0.14	0.24
Productivity (Real GSP per worker, % point difference)	0.3	0.4	0.5
Productivity (Real GSP per worker, \$ difference)	\$435	\$567	\$691
Employment	-203	1,331	804
<b>Industry gross value added (\$m)</b>	<b>1,515</b>	<b>2,325</b>	<b>2,953</b>
<i>Agriculture, forestry and fishing</i>	9	13	14
<i>Mining</i>	9	39	62
<i>Manufacturing</i>	109	148	156
<i>Electricity, gas, water and waste services</i>	16	35	47
<i>Construction</i>	100	164	178
<i>Wholesale &amp; retail trade</i>	165	208	228
<i>Accommodation and food services</i>	41	57	69
<i>Transport, postal and warehousing</i>	36	61	76
<i>Information media and telecommunications</i>	49	110	168
<i>Financial and insurance services</i>	501	695	899
<i>Business services</i>	345	544	674
<i>Public services</i>	93	124	158
<i>Other services</i>	41	56	66
<i>Ownership of dwellings</i>	0	70	155

Source: PwC estimates

**Table 6: Summary of Australian economic benefits (cumulative deviation from baseline)**

	2014-15	2019-20	2024-25
<b>National</b>			
Real Gross Domestic Product (\$m)	1,702	2,683	3,313
Tax revenue (\$m)	241	416	534
<i>Goods and services</i>	<b>105</b>	<b>153</b>	<b>185</b>
General taxes	-10	-3	-4
GST	74	90	107
Excises and levies	30	51	66
International trade	11	14	16
<i>Taxes on inputs</i>	<b>0</b>	<b>5</b>	<b>7</b>
Payroll	0	4	6
Property	1	1	1
<i>Taxes on income</i>	<b>135</b>	<b>258</b>	<b>342</b>
Individual	-13	91	153
Enterprises	147	165	186
Non-residents	1	2	3
Real Wages (% point difference)	0.30	0.74	0.61

Source: PwC estimates

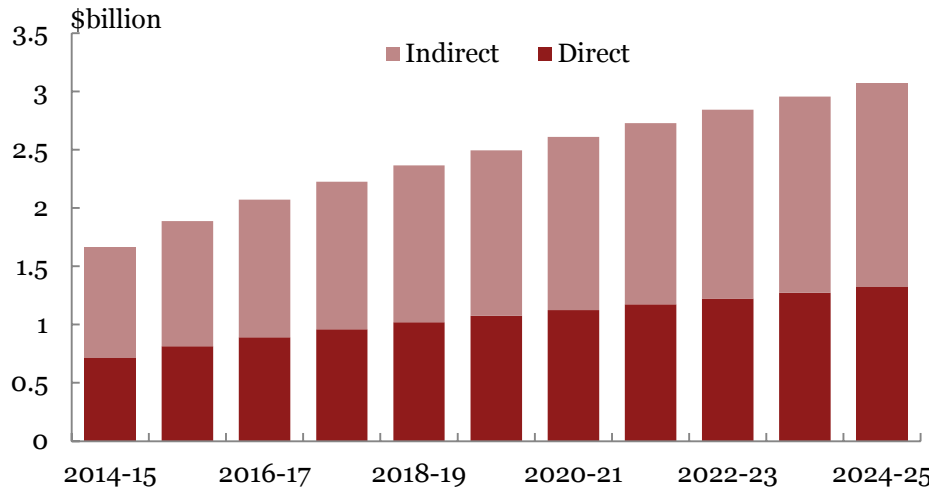
### 4.3.2 Macroeconomic effects

In 2012-13, NSW's real gross state product (GSP) was around \$470 billion (about one-third of national output) and is expected to grow to around \$515 billion by the end of 2015-16<sup>44</sup> driven by strong investment in the dwellings sector, public investment and household consumption. The base case scenario suggests that NSW output will increase by almost 35 per cent between 2012-13 and 2024-25 to be around \$630 billion (2011-12 dollars).

The modelled hypothesis estimates that NSW GSP will be over \$3 billion higher by the end of 2024-25 (see Table 5 and Figure 8). The increase in NSW output is driven by increased participation and productivity in the NSW economy, as injured workers return to work earlier. Increased productivity leads to increased employment and real wages, which flows through to higher consumption and investment in the economy.

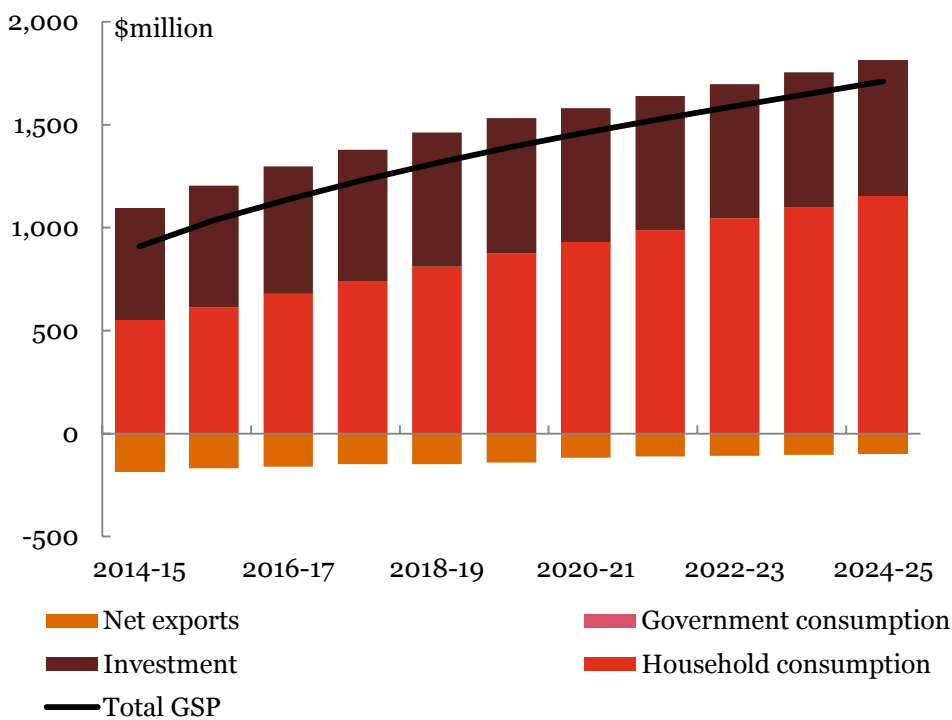
At the national level, increased activity in NSW has spill-over effects to the rest of the Australian economy. Australian real GDP is expected to increase by \$3.3 billion, driving real wage and taxation gains (see Table 5).

<sup>44</sup> NSW Treasury (2014), 'NSW Budget 2014-15', *NSW Government, 2014, Chapter 2*, available at [http://www.budget.nsw.gov.au/\\_\\_data/assets/pdf\\_file/0011/124310/Ch\\_2.pdf](http://www.budget.nsw.gov.au/__data/assets/pdf_file/0011/124310/Ch_2.pdf)

**Figure 8: Gross state product impact (\$bn), cumulative deviation from baseline**

Source: PwC estimates

At the expenditure level, the increase in NSW GSP is expected to be driven by household consumption and private investment. With higher imports offsetting the increase in exports, the external sector is expected to detract slightly in the hypothesis scenario (includes international and intra-state trade) (see Figure 9).

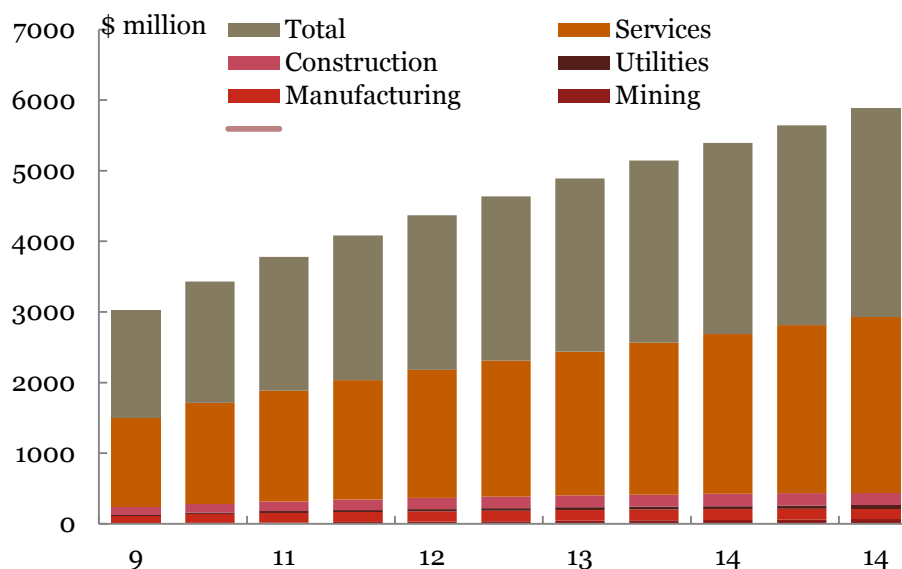
**Figure 9: Change to gross state product (expenditure side), cumulative deviation from baseline**

Source: PwC estimates

At the production level, almost 85 per cent of the increase in industry output is driven by the services sector, with around 6 per cent and 5 per cent coming

from the construction and manufacturing sectors respectively (see Figure 10). The increase in output from these sectors is directly linked to industry incidence rates (number of claims per 1,000 employees) and the number of employees in the state of NSW.

**Figure 10: Change to gross state product (production side), cumulative deviation from baseline**

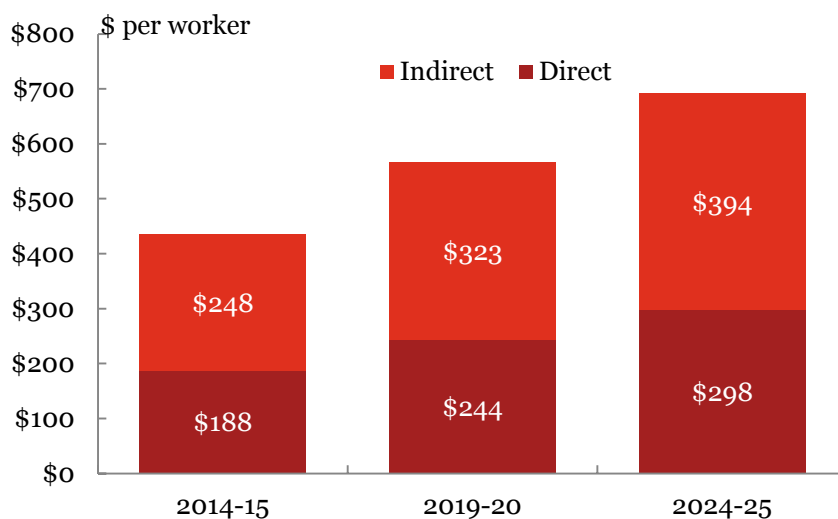


Source: PwC estimates

### 4.3.3 The labour market effects

With higher return to work rates productivity per worker is expected to increase over time. Output per worker is estimated to be almost \$700 per worker higher by the end of 2024-25 (around 0.5 per cent higher) (see Figure 11).

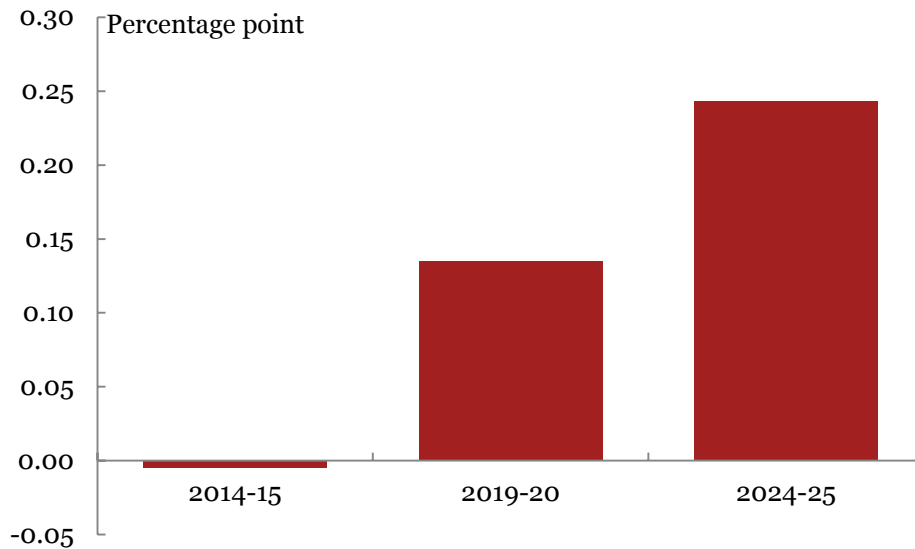
**Figure 11: Increase in output per worker under modelled scenario, cumulative deviation from baseline**



Source: PwC estimates

Over time, increased productivity across NSW leads to higher growth in real wages as employees are compensated for higher rates of productivity growth. Figure 12 shows the percentage point difference between real wages in the base scenario and modelled scenario. Under the modelled scenario, real wages are almost one quarter of a percentage point higher than the base case.

**Figure 12: Percentage point difference in real wages between baseline and modelled scenario, cumulative deviation from baseline**



Source: PwC estimates

With higher real wages, employment across the state is expected to increase as supplying labour becomes more attractive to potential workers.

Employment across the state is expected to be around 1,000 persons higher by the middle of the next decade (see Figure 13). However, employment initially falls by around 200 persons in 2014-15, driven by a fall in public sector employees operating the WorkCover NSW scheme.

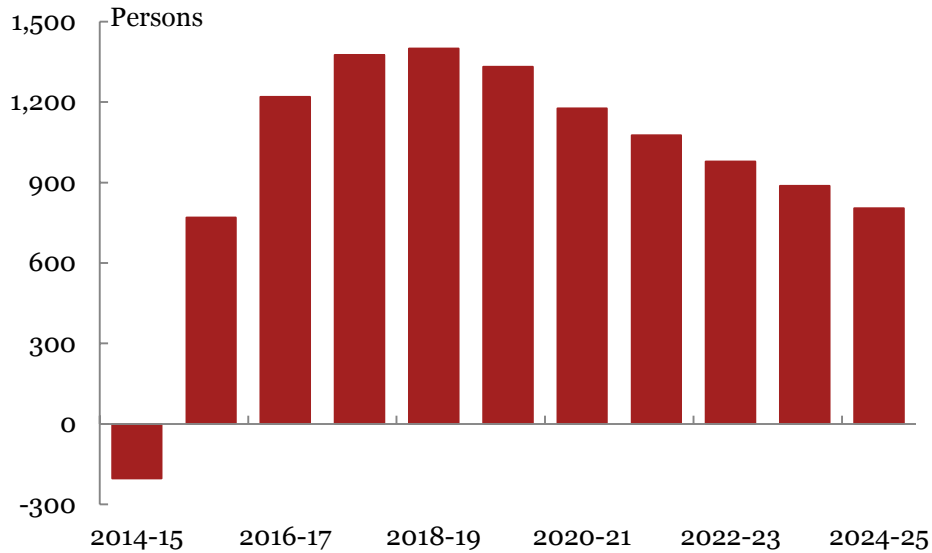
As labour moves to more productive industries of the NSW economy, many of these lost positions are more than offset by higher employment in other private sector industries. While some of these jobs are picked up in financial and insurance services as previously employed public sector workers compensation employees move to the private sector, this is only a small proportion of the gain in employment.

The majority of the increase in employment between the base case and the modelled scenario is in construction, business services, manufacturing, transport and agriculture. Increased employment in these industries reflects lower absenteeism and higher participation in the workforce as a result of lower claim duration under the privately underwritten scheme.

The increase in employment, while still positive compared to the base case, begins to reduce five years into the forecast period (2018-19). This is due to

structural adjustment occurring over the longer term as labour moves between industries and jurisdictions of the Australian economy.

**Figure 13: Change in employment under private underwriting scenario**

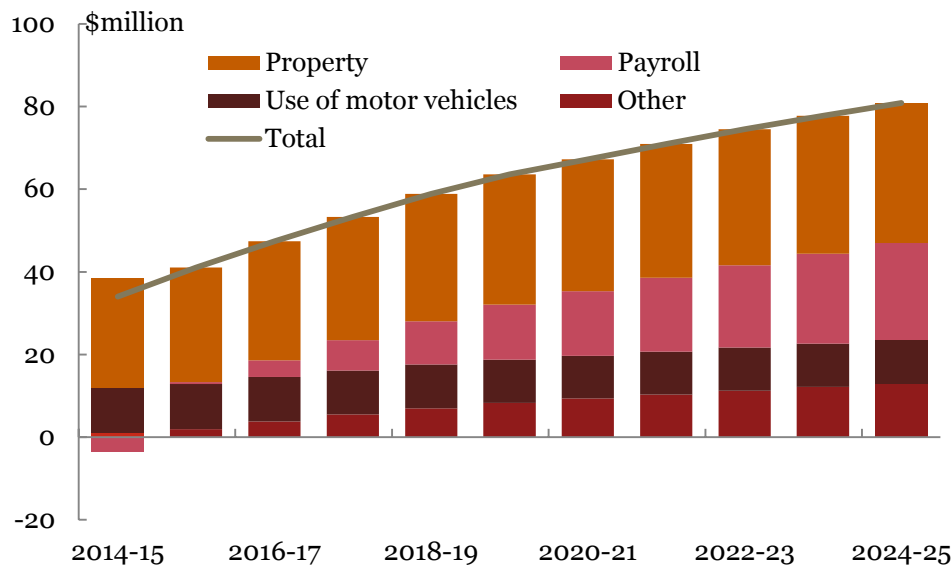


Source: PwC estimates

#### 4.3.4 Tax revenue effects

In line with strong growth in economic output, tax revenue to both the NSW and Commonwealth Governments would increase under the modelled scenario. PwC estimates taxation revenue to the NSW Government would be over \$80 million higher by the end of 2024-25. This increase in state taxation revenue is driven predominantly by property and payroll tax collections (see Table 5 and Figure 14).

**Figure 14: Increase in NSW taxation collection (cumulative deviation from baseline)**



Source: PwC estimates

While state taxes are over \$80 million higher by the end of 2024-25, Commonwealth Government taxation revenue is \$534 million higher (see Table 6), driven by:

- corporate tax (\$186 million)
- income tax (\$153 million)
- GST<sup>45</sup> (\$107 million)
- other taxes (\$88 million).

<sup>45</sup> While total GST revenue is collected by the Federal Government, the revenue is re-distributed to all state and territory governments.

# *Workers Compensation — South Australia*

## *Summary*

- The modelled scenario makes no allowance for the recent legislative reforms.
- Private underwriting may create around \$530 million of additional economic output in South Australia by the end of 2024–25 (\$568 million across Australia).
  - Around 85 per cent of the increase in industry output is driven by the services sector, with another 10 per cent driven by construction and manufacturing output.
- SA Government taxation revenue may increase by around \$15 million, driven by increases in property and payroll taxes.
  - The Commonwealth Government may also increase taxation revenue by \$95 million. This increase is driven by strength in corporate, income and GST taxation collections (see Table 9).
- The increase in output and taxation revenue is driven by strong growth in productivity, with output per worker in SA increasing by \$531 by the end of 2024–25.
- Higher productivity is estimated to increase employment by around 300 persons by the middle of the decade. With the increase in employment driven predominantly by construction and business services employment.

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# 5 *Workers compensation — South Australia*

## 5.1 *Background on the SA WorkCover Scheme*

WorkCover SA manages the South Australian Workers Rehabilitation and Compensation Scheme. WorkCover SA operates and regulates under the *Workers Rehabilitation and Compensation Act 1986*. The scheme provides a service to around 49,600 employers, covering almost 729,700 South Australian workers.

Recently major legislative reforms have been made which affect the SA scheme. Due to the timing of the production of this report, these have not been allowed for in the economic modelling.

Over the past five years, while the number of claims has fallen by around 20 per cent, the cost of claims has increased by around 30 per cent.<sup>46</sup> With strong increases in the cost of claims, the balance sheet of the SA WorkCover scheme has deteriorated further in recent years.

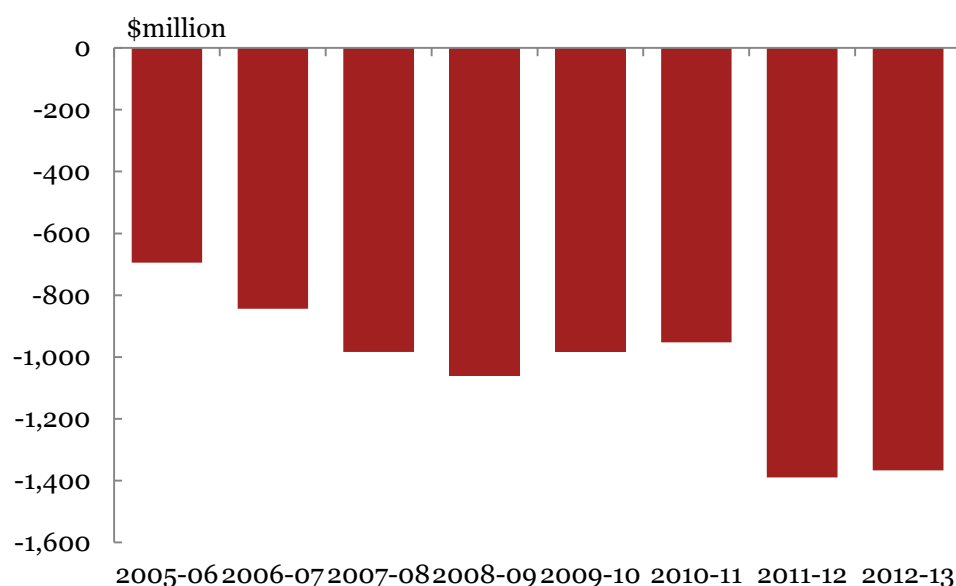
Net assets continue to be negative, with deterioration in the scheme's balance sheet becoming more pronounced over the past two financial years (see Figure 15, next page). As of 2012-13, the scheme holds \$2.4 billion of assets, against \$3.8 billion of liabilities.

On August 5 2014, Premier Jay Weatherill announced that the Return to Work Bill 2014 will replace the WorkCover Scheme, saving registered businesses in SA more than \$180 million per year.<sup>47</sup> This will be one of the most significant reforms to occur to the South Australian workers compensation scheme in more than 25 years. The reforms focus on early intervention and better support for workers, with the intention of faster return to work rates. The Return to Work Bill is underwritten by the South Australian Government on behalf of the nearly 50,000 employers across the state. Recent reforms have focused on 'better case management', whereby managers would meet with injured workers and employers (face-to-face) within 48 hours of being notified of an injury that is likely to last longer than two weeks.

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<sup>46</sup> Net claims paid plus net outstanding claims liability.

<sup>47</sup> Attorney-General's Department (2014), 'Return to Work Bill 2014', *Government of South Australia Attorney-General's Department*, available at <<http://www.workcover.com/workcover/return-to-work-bill>>

**Figure 15: SA Workers Compensation Scheme Net Assets**

Source: SA WorkCover

## 5.2 Modelling assumptions

### 5.2.1 Better capital management – capital productivity

Capital management is a key performance requirement for the private sector. Over the long-run, it is assumed that the workers compensation capital managed by private insurers on average provide higher services per unit of capital or same level of services with lower capital (capital productivity).

The following underlying assumptions (based on 2012-13 data) have been used to estimate the capital productivity improvements:

- The SA finance and insurance industry gross value-add (Y) is \$6.5 billion (or 6.8 per cent) to South Australia's economy.<sup>48</sup>
- The SA finance and insurance industry's gross operating surplus and mixed income (profits) (G) is \$4.1 billion,<sup>49</sup> accounting for 63 per cent of industry gross value-add.
- Estimated capital stock (K) in the industry is \$20.5 billion.<sup>50</sup>

<sup>48</sup> Australian Bureau of Statistics (2013), '5220.0 - Australian National Accounts: State Accounts 2012-13'. *Australian Bureau of Statistics*, available at <<http://www.abs.gov.au/AUSSTATS/abs@.nsf/DetailsPage/5220.02012-13?OpenDocument>>

<sup>49</sup> Ibid.

<sup>50</sup> PwC estimate based on the ABS data

- The return to capital is calculated as  $4.1/20.5 = 20$  per cent (includes an adjustment for depreciation to obtain net returns before tax).
- The total assets value of the SA workers compensation scheme are \$2.4 billion.<sup>51</sup>

When statutory insurance capital is moved from WorkCover SA to private insurers, the model assumes that the same capital is efficiently managed by private insurers due to competition, economies of scale and scope, and incentives offered to investment managers to cover the current and future claims of injured workers. Whilst scheme design differences are present, evidence shows that:<sup>52</sup>

- Since 2008-09, the average cost per claim in SA has fallen 5.3 per cent, this has been driven primarily by a reduction in direct payments and services.<sup>53</sup>
- Average costs per claim in SA are 8.5 per cent below the national average. However, it is important to note that this is because direct payments and services are 11.3 per cent lower than the national average, but administrative costs are 0.9 per cent higher.<sup>54</sup>
- Overall, administrative costs are around 30 per cent higher than the average privately managed scheme.

Based on the above data, there is an estimated capital productivity improvement of 1 per cent in the privatised SA finance and insurance sector compared to *status quo*. Key steps in the calculation are:

- Baseline output<sup>55</sup> to capital ratio is  $6.5/20=0.32$ .
- In the modelled scenario the output to capital ratio becomes  $6.5/22.8=0.28$  for a given baseline output.
- Percentage change in output to capital ratio is 10.4 per cent ( $0.28/0.32$ ).

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<sup>51</sup> WorkCoverSA (2013), 'Annual Report 2012-13'. *Government of South Australia WorkCoverSA*, available at <<http://www.workcover.com/upload/WorkCoverSA-Annual-Report-2012-13.pdf>>

<sup>52</sup> The following points have been calculated from data obtained from the Safe Work Australia website (see <http://www.safeworkaustralia.gov.au/sites/swa/statistics/pages/statistics>) and Safe Work Australia (2013) *Comparative Performance Monitoring Report*, 15<sup>th</sup> Edition

<sup>53</sup> Direct payments and services include compensation paid to injured employees and the cost of medical treatment and rehabilitation costs.

<sup>54</sup> Administrative costs include insurance operation costs, regulation and dispute resolution costs and also other administration costs relating to corporate administration.

<sup>55</sup> Industry gross value-add of insurance sector.

- It is assumed that capital is managed 10 per cent efficiently in the long-run. As such, 10 per cent of 10.4 per cent gives capital productivity of 1 per cent.

### *5.2.2 Faster return to work — labour productivity*

Workforce participation impacts associated with improved care, faster return to work rates and increased flexibility in claim management have important effects on both the South Australian and Australian economy.

- Based on the number of employed persons by industry and the incidence rate by industry, the number of non-catastrophic injuries in SA by each industry was estimated.
- The modelled scenario assumes that **5 per cent** of injured persons can return to work faster and contribute to the economy by participating in market activities. Based on this, the following labour productivity assumptions are calibrated and applied to the economy-wide MMRF model to estimate the South Australian economy-wide impact (see Table 7).
  - On average 0.4 per cent labour productivity gains
  - For comparison, in 1995, the Industry Commission estimated that an average of 0.92 days lost per worker per year translated into a 0.38 per cent decrease in the effectiveness of the labour force<sup>56</sup>
- Productivity gains are related to industry incidence rate differences and the number of employed persons in each industry.

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<sup>56</sup> Industry Commission (1995), Work, health and safety, An inquiry into occupational health and safety, Volume 1: Report, 11 September 1995. [http://www.pc.gov.au/\\_\\_data/assets/pdf\\_file/0010/6994/47workhev1.pdf](http://www.pc.gov.au/__data/assets/pdf_file/0010/6994/47workhev1.pdf)

**Table 7: Potential gains in labour productivity by industry in South Australia**

Industry	%
Agriculture, forestry and fishing	0.228
Mining	0.352
Manufacturing	0.239
Electricity, gas, water and waste services	0.820
Construction	0.267
Wholesale trade	0.388
Retail trade	0.667
Accommodation and food services	0.467
Transport, postal and warehousing	0.240
Information media and telecommunications	0.704
Rental, hiring and real estate services	0.676
Professional, scientific and technical services	0.685
Administrative and support services	0.685
Public administration and safety (private)	0.610
Education and training (private)	0.649
Health care and social assistance (private)	0.355
Arts and recreation services	0.595
Other services	0.258
<b>Total</b>	<b>0.452</b>

Source: PwC estimates based on the ABS data and Safe Work Australia data

### 5.2.3 Reduced health expenditure

Minor injuries create demand for medical and rehabilitation services. Workers compensation pays for most of these services. A faster expected recovery achieved could potentially lead to savings in health expenditure should the reduction in injury duration translate to a reduction in the number of medical costs.

Potential savings associated with the medical and rehabilitation expenditure are provided below:

- South Australian WorkCover medical expenditure in 2012-13 is \$129 million<sup>57</sup>
- health expenditure in 2012-13 in SA is just over \$8 billion
  - share is  $129/8086 = 1.5$  per cent

<sup>57</sup> WorkCoverSA (2013), 'Annual Report 2012-13'. Government of South Australia WorkCoverSA, available at <<http://www.workcover.com/upload/WorkCoverSA-Annual-Report-2012-13.pdf>>

- an assumption of a 10 per cent reduction in medical and rehabilitation expenditure due to better claims management is expected to reduce health expenditure in South Australia by 0.16 per cent.

These direct expected impacts are applied to the MMRF model.

## 5.3 Potential economic effects of the modelled scenario

### 5.3.1 Summary of effects

The economic impacts of the modelled scenario are highlighted in Table 8 and Table 9 below.

**Table 8: Summary of South Australian economic benefits (cumulative deviation from baseline)**

	2014-15	2019-20	2024-25
<b>South Australia</b>			
Real Gross State Product (\$m)	288	443	530
State tax revenue (\$m)	5	10	14
Real Wages (% point difference)	0.00	0.00	0.00
Productivity (Real GSP per worker, % point difference)	0.3	0.4	0.4
Productivity (Real GSP per worker, \$ difference)	\$ 340	\$ 436	\$ 531
Employment	-161	313	194
<b>Industry gross value added (\$m)</b>	<b>267</b>	<b>420</b>	<b>521</b>
<i>Agriculture, forestry and fishing</i>	5	6	6
<i>Mining</i>	1	3	3
<i>Manufacturing</i>	20	25	26
<i>Electricity, gas, water and waste services</i>	6	13	17
<i>Construction</i>	18	34	38
<i>Wholesale &amp; retail trade</i>	31	38	41
<i>Accommodation and food services</i>	6	8	10
<i>Transport, postal and warehousing</i>	6	9	11
<i>Information media and telecommunications</i>	4	12	20
<i>Financial and insurance services</i>	85	126	162
<i>Business services</i>	61	105	129
<i>Public services</i>	19	25	30
<i>Other services</i>	7	9	11
<i>Ownership of dwellings</i>	0	6	16

Source: PwC estimates

**Table 9: Summary of national economic benefits (cumulative deviation from baseline)**

	2014-15	2019-20	2024-25
<b>National</b>			
Real Gross Domestic Product (\$m)	282	469	568
Tax revenue (\$m)	37	74	95
<b>Taxes on goods and services</b>	19	29	34
General taxes	1	2	1
GST	12	16	19
Excises and levies	5	9	11
International trade	2	2	3
<b>Taxes on inputs</b>	0	1	1
Payroll	0	1	1
Property	0	0	0
<b>Taxes on incomes</b>	18	44	60
Individuals	-6	16	29
Enterprises	24	28	30
Non-residents	0	0	0
Real Wages (% point difference)	0.01	0.15	0.13

Source: PwC estimates

### 5.3.2 Macroeconomic effects

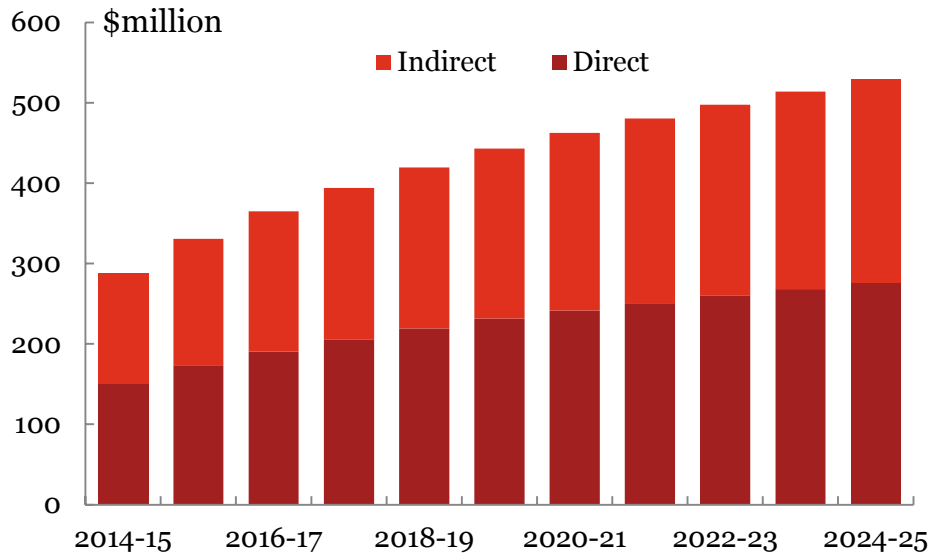
In 2012-13, South Australian real gross state product (GSP) was around \$95 billion (about 6 per cent of national output) and is expected to grow to around \$105 billion by the end of 2017-18<sup>58</sup> driven by growth in dwelling construction and household consumption. With announced closures of automotive manufacturing capacity by the end of 2017, the SA economy is expected to adjust with support from the state government. The base case scenario suggests that SA's output will increase by almost 25 per cent between 2012-13 and 2024-25 to be around \$120 billion (2011-12 dollars).

In the modelled scenario, SA GSP would be around \$530 million higher by the end of 2024-25 (see Table 8 and Figure 16). The increase in SA's output is driven by increased participation and productivity in the state economy, as injured workers return to work earlier. Increased productivity leads to increased employment and real wages, which flows through to higher consumption and investment in the economy.

<sup>58</sup> Department of Treasury and Finance, '2014-15 Budget Paper 3 – Budget Statement', *Government of South Australia*, available at <<http://servicesa.cdn.on.net/budget201415/docs/budgetp3-201415.pdf>>

At the national level, increased activity in SA will have spill-over effects to the rest of the Australian economy. Australian real GDP is expected to increase by almost \$570 million, driving real wage and taxation gains (see Table 5).

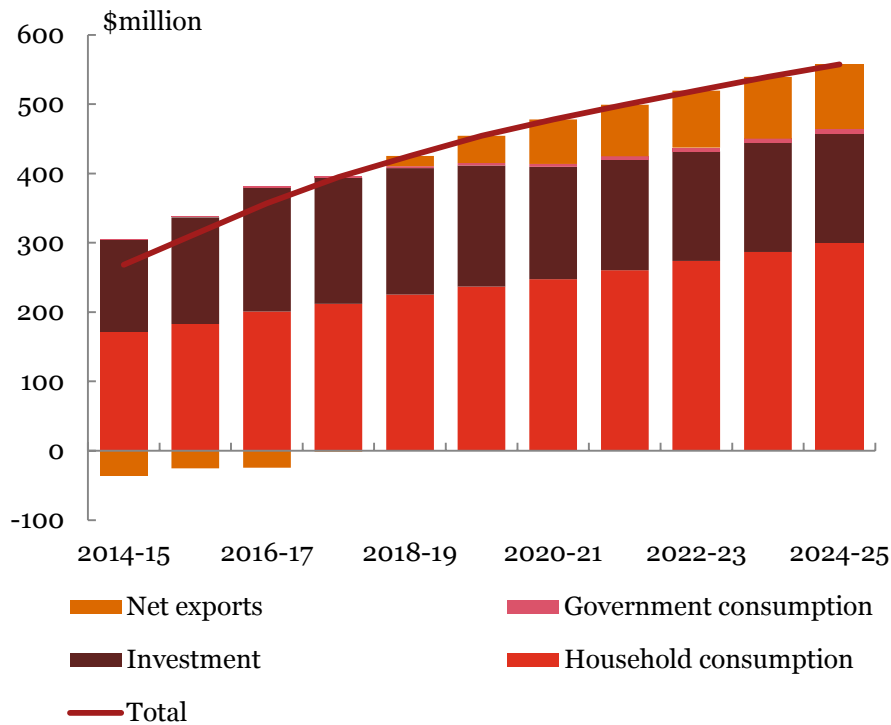
**Figure 16: Gross state product impact (\$million), cumulative deviation from baseline**



Source: PwC estimates

At the expenditure level, the increase in SA GSP is expected to be driven by household consumption and private investment. Initially, higher imports will offset the increase in SA exports. This will cause the external sector to detract more from growth in the hypothesis scenario in the first few years of the policy change. However, unlike NSW, the external sector is a larger part of the SA economy and as structural changes occur through the economy, exports will begin to outstrip import growth. As this occurs, the external sector begins to contribute to growth from 2017-18 (see Figure 17, next page).

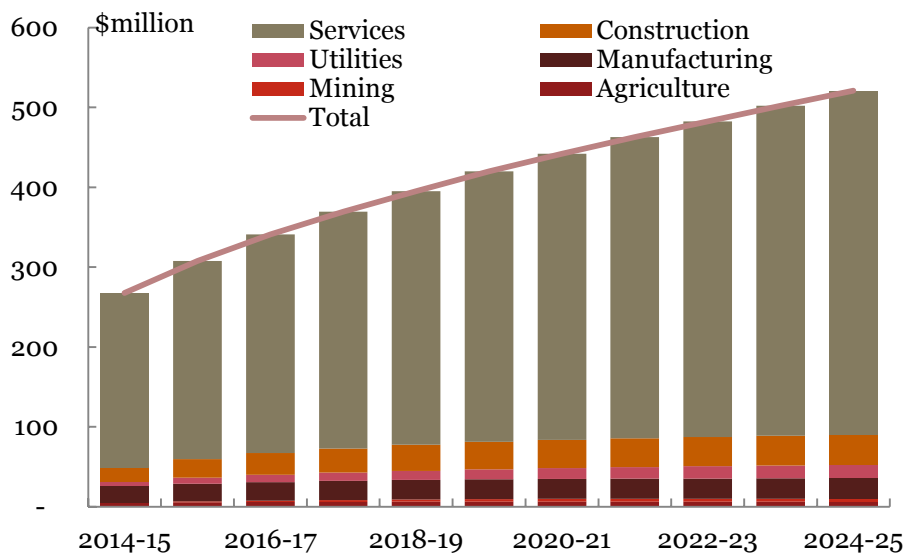
**Figure 17: Change to gross state product (expenditure side), cumulative deviation from baseline**



Source: PwC estimates

At the production level, almost 85 per cent of the increase in industry output is driven by the services sector, with around 6 per cent and 4 per cent coming from the construction and manufacturing sectors respectively (see Figure 18). The increase in output from these sectors is directly linked to the number of employees in the state of SA and the relative number of claims per 1,000 employees (incidence rates) within each sector.

**Figure 18: Change to gross state product (production side), cumulative deviation from baseline**

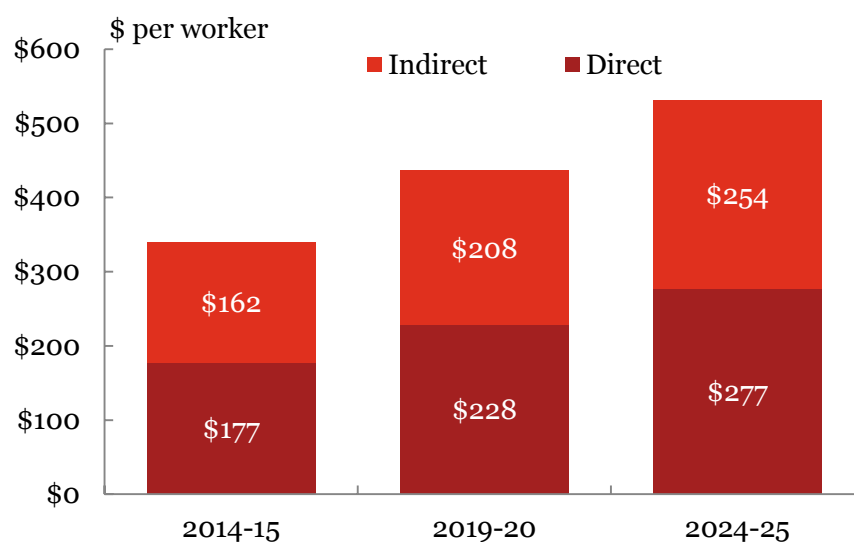


Source: PwC estimates

### 5.3.3 The labour market effects

With higher return to work rates productivity per worker is expected to increase over time. In the scenario modelled output per worker is estimated to be \$531 per worker higher by the end of 2024-25 (around 0.4 per cent higher) (see Figure 19).

**Figure 19: Increase in output per worker, cumulative deviation from baseline**



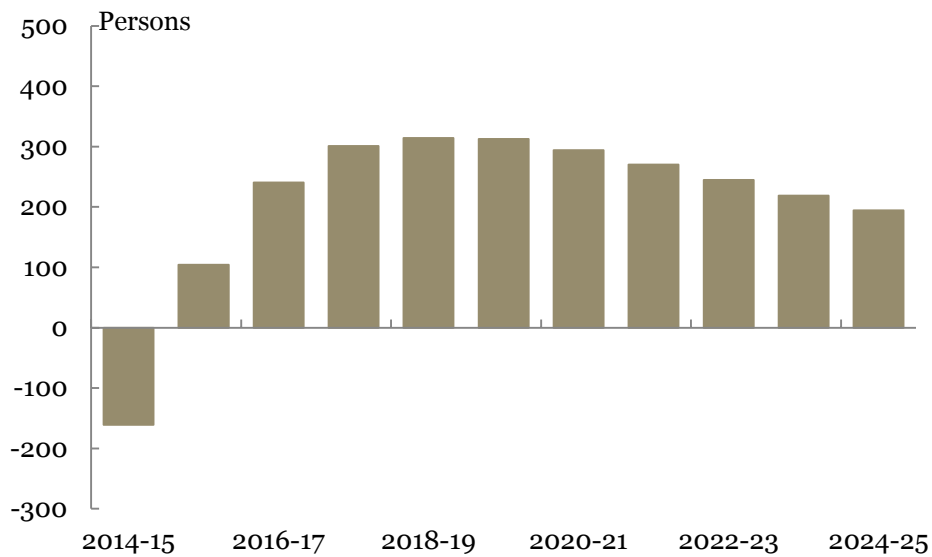
Source: PwC estimates

While output per worker increases, employment across the state is expected to be around 300 persons higher by the middle of the next decade (see Figure 13). However, employment initially falls by around 150 persons in 2014-15, driven by a fall in public sector employees operating the WorkCover SA scheme.

As labour moves to more productive industries of the SA economy, many of these lost positions are more than offset by higher employment in other private sector industries. While some of these jobs are picked up in financial and insurance services as previously employed public sector workers compensation employees move to the private sector, this is only a small proportion of the gain in employment.

The majority of the increase in employment between the base case and scenario modelled is in business services, construction and manufacturing. Increased employment in these industries reflects lower absenteeism and higher participation in the workforce as a result of lower claim duration.

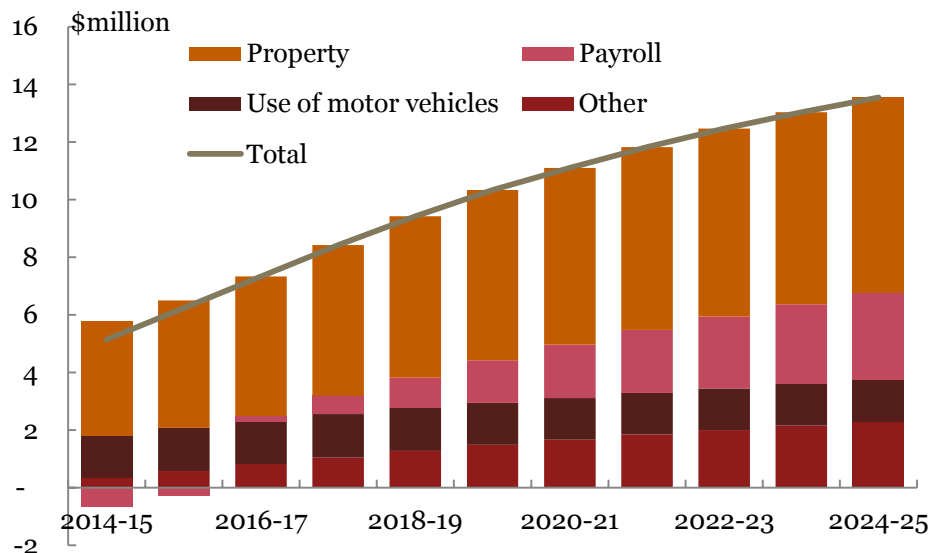
The increase in employment, while still positive compared to the base case, begins to reduce five years into the forecast period (2018-19). This is due to structural adjustment occurring over the longer term as labour moves between states and territories of the Australian economy.

**Figure 20: Change in employment under private underwriting scenario**

Source: PwC estimates

### 5.3.4 Tax effects

In line with an improvement in economic output, tax revenue to both the SA and Commonwealth Governments would increase under the scenario modelled. Taxation revenue to the SA Government will be \$14 million higher by the end of 2024-25. This increase in state taxation revenue is driven predominantly by property and payroll tax collections (see Table 8 and Figure 21).

**Figure 21: Increase in SA taxation collection, cumulative deviation from baseline**

Source: PwC estimates

While state taxes are \$14 million higher by the end of 2024-25, Commonwealth Government taxation revenue is \$95 million higher (see

Table 9). The increase in Commonwealth Government taxation revenue in 2024-25 is driven by:

- Corporate tax (\$30 million)
- Income tax (\$29 million)
- GST<sup>59</sup> (\$19 million)
- Excises and levies (\$11 million)
- Other taxes (\$6 million).

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<sup>59</sup> While total GST revenue is collected by the Federal Government, the revenue is re-distributed to all state and territory Governments.

# Compulsory Third Party — South Australia

## Summary

- Private underwriting of South Australian CTP shows a potential \$308 million of additional economic output in South Australia by the end of 2024/25 (\$307 million across Australia).
  - Around 90 per cent of the increase in industry output is driven by the services sector, with another 12 per cent driven by construction, manufacturing and utilities output.
- SA Government taxation revenue could increase by around \$9 million, driven by increases in property and payroll taxes.
  - The Commonwealth Government may also increase taxation revenue by \$57 million. This increase is driven by strength in income, corporate and GST taxation collections (see Table 11).
- The potential increase in output and taxation revenue is driven by strong growth in productivity, with output per worker in SA increasing by \$311 by the end of 2024/25.
- Higher productivity is estimated to increase employment by around 200 persons. With the increase in employment driven predominantly by the financial and insurance services, business services, construction and manufacturing sectors.

# 6 Compulsory third party insurance – South Australia

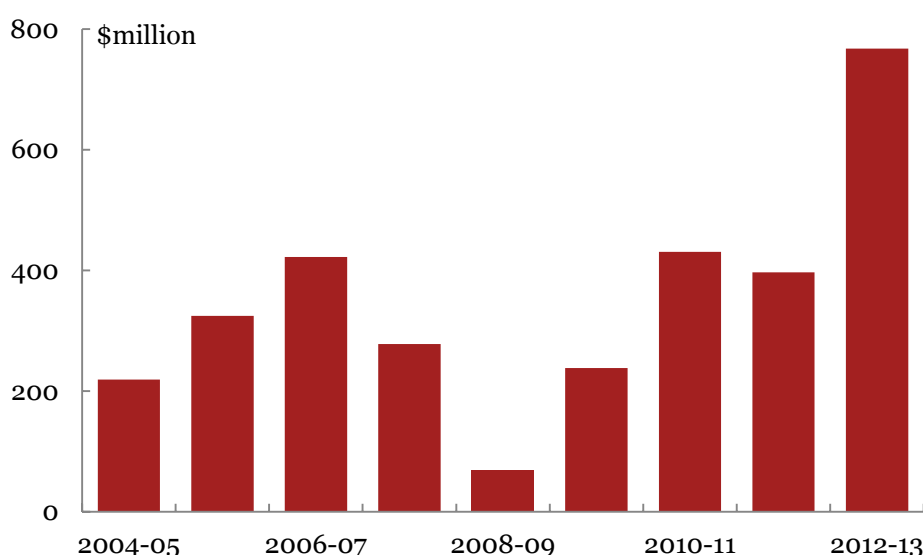
## 6.1 Background on SA CTP Scheme

Compulsory Third Party (CTP) insurance is a proportion of each state's motor vehicle registration costs and provides compensation to victims of motor vehicle accidents. The Motor Accident Commission (MAC), a government body, publically underwrites the scheme. While the MAC manages the capital underwriting the scheme, Allianz insurance has been contracted to handle all claim and enquiries over the past decade.

There are approximately 1.3 million motor vehicles insured under the SA CTP scheme. While the number of claims and the cost of settlements have fallen by 5.5 per cent and 1.5 per cent over the past five years respectively, the average premium per vehicle has increased by over 30 per cent.

With strong growth in the value of premiums and a reduction in the number of claims lodged over the past five years, the balance sheet of the scheme has strengthened significantly. Over the past five years, net assets have increased from \$278 million to \$768 million (see Figure 22). As of 2012-13, the scheme holds \$3.3 billion of assets, against \$2.5 billion of liabilities.

**Figure 22: SA CTP Scheme Net Assets**



Source: Motor Accident Commission South Australia

The provision of CTP vehicle insurance has been opened to the private sector under the South Australian State Government changes announced in the 2014-15 South Australian Budget. From 1 July 2016, the Motor Accident Commission (MAC) will cease its role as the sole provider of CTP vehicle

insurance in SA to open the way for provision of CTP insurance by the private sector.<sup>60</sup>

## 6.2 *Modelling assumptions*

### 6.2.1 *Better capital management — capital productivity*

Capital management is a key performance requirement for the private sector. Over the long-run, it is assumed that the CTP capital managed by private insurers on average provide higher services per unit of capital or same level of services with lower capital (capital productivity).

The following underlying assumptions based on data for 2012-13 have been used in the economic modelling:

- Finance and insurance industry gross value-add in the SA economy contributes \$6.5 billion (or 6.8 per cent) of South Australia's economy.<sup>61</sup>
- Finance and insurance industry's gross operating surplus and mixed income (profits) is \$4.1 billion<sup>62</sup>, accounting for 63 per cent of industry gross value-add.
- Estimated capital stock in the industry is \$20.5 billion.<sup>63</sup>
- Return to capital is calculated as  $4.1/20.5 = 20$  per cent (this includes an adjustment for depreciation to obtain net returns before tax).
- SA CTP total assets value is \$3.3 billion.<sup>64</sup>

When statutory CTP insurance capital is moved from MAC to private insurers, the model that the same capital is efficiently managed by private insurers due to competition, economies of scale and scope, and incentives offered to investment managers to cover the current and future claims of motor vehicle injured. PwC notes that whilst scheme design differences are present, evidence shows that:

- Nearly \$65 million was spent in 2012-13 to administer the SA CTP scheme. This cost has more than doubled over the past nine years. Further, the proportion of premium spent on administrative expenses

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<sup>60</sup> Department of Treasury and Finance, '2014-15 State Budget – Media Releases', *Government of South Australia*, available at <<http://www.statebudget.sa.gov.au/media.html>>

<sup>61</sup> Australian Bureau of Statistics (2013), '5220.0 - Australian National Accounts: State Accounts 2012-13', *Australian Bureau of Statistics*, available at <<http://www.abs.gov.au/AUSSTATS/abs@.nsf/DetailsPage/5220.02012-13?OpenDocument>>

<sup>62</sup> Ibid.

<sup>63</sup> PwC estimate based on the ABS data

<sup>64</sup> WorkCoverSA (2013), 'Annual Report 2012-13', *Government of South Australia WorkCoverSA*, available at <<http://www.workcover.com/upload/WorkCoverSA-Annual-Report-2012-13.pdf>>

has increased from 7.4 per cent in 2004-05 to 11.3 per cent in 2012-13. This is mainly due to the increase in management expenses.

- In 2012-13, administrative costs per claim in the SA CTP scheme was over \$11,000 whilst in NSW's privately underwritten scheme it was under \$8,000. This is a 35 per cent higher cost per claim for the SA CTP scheme. This may have included some scheme coverage and differences in operation.
- Months open to finalisation (based on year claim finalised) is currently around 22 months in SA compared to 18 months in the privately underwritten CTP scheme in NSW (again, it is important to note scheme differences).
- To ensure consistency with our modelling of workers compensation schemes for 2012-13, these figures have not been updated for the recent Motor Accident Commission Annual report for 2013-14 released on 11 November 2014.

Based on the above data, an increase in capital efficiency of 1.4 per cent has been assumed compared with the status quo. Key steps in the calculation are:

- baseline output to capital ratio is  $6.5/20=0.32$ ;
- when the CTP scheme is underwritten by private insurers, output to capital ratio becomes  $6.5/24=0.27$  for a given baseline output
- percentage change in output to capital ratio is 13.9 per cent ( $0.27/0.32$ )
- it is assumed that capital is managed 10 per cent more efficiently in the long-run. As such, 10 per cent of 13.9 per cent gives a capital efficiency of 1.39 per cent.

### 6.2.2 *Faster return to work — labour productivity*

Workforce participation impacts associated with improved care, faster return to work rates and increased flexibility in claim management have important effects on both the South Australian and Australian economy.

It is assumed that **5 per cent** of injured persons can return to work faster and contribute to the economy by participating in the market activities. Injured persons are adjusted for SA workforce participation rates,<sup>65</sup> since not all injured are employed.

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<sup>65</sup> As of September 2014, participation rate in SA is 62. Australian Bureau of Statistics (2014), '6202.0 – Labour Force, Australia, Oct 2014 -Labour Force Survey seasonally adjusted data' *Australian Bureau of Statistics*, available at <http://www.abs.gov.au/AUSSTATS/abs@.nsf/DetailsPage/6202.0Sep%202014?OpenDocument>

There are nearly 5,684 claims lodged in 2012-13. Based on the participation impacts, nearly 3,500 are employed. If 5 per cent of these employed claimants return to work faster, labour effectiveness will improve on average by 0.032 per cent. Since we do not have data by industry, we have assumed a SA economy wide productivity of 0.032 per cent.

### ***6.2.3 Reduced health expenditure***

Minor injuries create demand for medical and rehabilitation services that would not otherwise exist. A faster expected recovery achieved could potentially lead to savings in health expenditure. This diverts the economy's resources to more productive opportunities elsewhere in the economy. A faster expected recovery achieved could potentially reduce the direct or flow on health expenditure required in the state.

Potential savings associated with the medical and rehabilitation expenditure are:

- South Australian CTP medical expenditure in 2012-13 is \$116 million<sup>66</sup>
- State Government health expenditure in 2012-13 is just over \$8 billion. The share is calculated as  $116/8086 = 1.4$  per cent. An assumed 10 per cent reduction in medical and rehabilitation expenditure due to better claims management is expected to reduce health expenditure in South Australia by 0.14 per cent. These direct expected impacts are applied to the MMRF model.

## ***6.3 Potential economic effects of the scenario modelled***

### ***6.3.1 Summary of effects***

The economic impacts of the modelled scenario are highlighted in Table 10 and Table 11 (following pages).

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<sup>66</sup> Motor Accident Commission (2013), 'Annual Report 2012-13', *Government of South Australia*, available at [http://www.mac.sa.gov.au/Media/Default/Images/Group/About%20MAC/About%20PDF's/5545\\_mac\\_annual\\_report\\_12-13\\_final%20\(1\).pdf](http://www.mac.sa.gov.au/Media/Default/Images/Group/About%20MAC/About%20PDF's/5545_mac_annual_report_12-13_final%20(1).pdf)

**Table 10: Summary of South Australian economic benefits  
(cumulative deviation from baseline)**

	2014-15	2019-20	2024-25
<b>South Australia</b>			
Real Gross State Product (\$m)	190	260	308
State tax revenue (\$m)	5	8	9
Real Wages (% point difference)	0.00	0.00	0.00
Productivity (Real GSP per worker, % point difference)	0.2	0.2	0.3
Productivity (Real GSP per worker, \$ difference)	\$185	\$256	\$311
Employment	206	185	95
<b>Industry gross value added (\$m)</b>	<b>184</b>	<b>259</b>	<b>318</b>
<i>Agriculture, forestry and fishing</i>	<i>2</i>	<i>2</i>	<i>2</i>
<i>Mining</i>	<i>0</i>	<i>1</i>	<i>1</i>
<i>Manufacturing</i>	<i>9</i>	<i>9</i>	<i>9</i>
<i>Electricity, gas, water and waste services</i>	<i>3</i>	<i>6</i>	<i>8</i>
<i>Construction</i>	<i>10</i>	<i>18</i>	<i>20</i>
<i>Wholesale &amp; retail trade</i>	<i>16</i>	<i>17</i>	<i>18</i>
<i>Accommodation and food services</i>	<i>3</i>	<i>4</i>	<i>5</i>
<i>Transport, postal and warehousing</i>	<i>3</i>	<i>4</i>	<i>5</i>
<i>Information media and telecommunications</i>	<i>2</i>	<i>5</i>	<i>8</i>
<i>Financial and insurance services</i>	<i>91</i>	<i>124</i>	<i>155</i>
<i>Business services</i>	<i>30</i>	<i>45</i>	<i>54</i>
<i>Public services</i>	<i>10</i>	<i>12</i>	<i>15</i>
<i>Other services</i>	<i>4</i>	<i>5</i>	<i>6</i>
<i>Ownership of dwellings</i>	<i>0</i>	<i>5</i>	<i>11</i>

Source: PwC estimates

**Table 11: Summary of national economic benefits (cumulative deviation from baseline)**

	2014-15	2019-20	2024-25
<b>National</b>			
Real Gross Domestic Product (\$m)	178	261	307
Tax revenue (\$m)	29	46	57
<b>Goods and services</b>	<b>11</b>	<b>16</b>	<b>18</b>
General taxes	-2	0	0
GST	8	9	10
Excises and levies	4	5	6
International trade	1	1	2
<b>Taxes on inputs</b>	<b>0</b>	<b>1</b>	<b>1</b>
Payroll	0	1	1
Property	0	0	0
<b>Taxes on income</b>	<b>17</b>	<b>30</b>	<b>38</b>
Individual	2	16	24
Enterprises	15	13	14
Non-residents	0	0	0
Real Wages (% point difference)	0.08	0.09	0.07

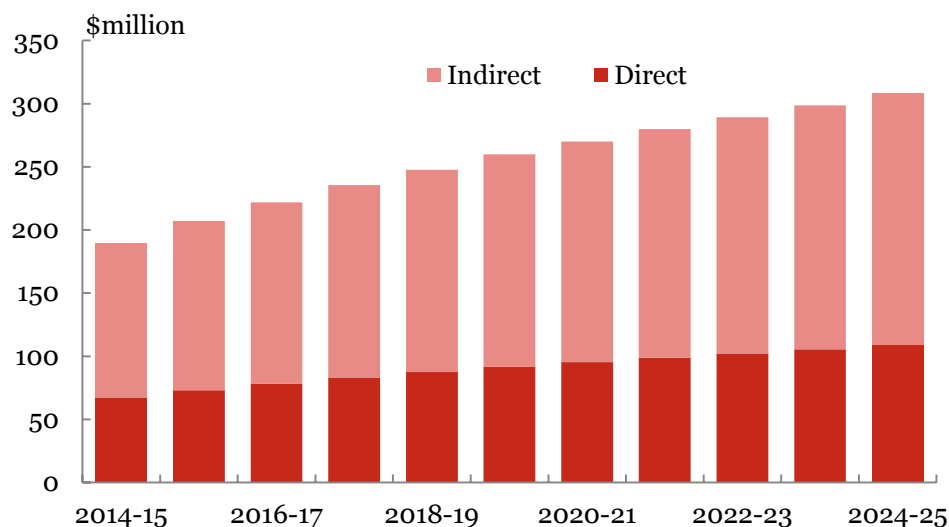
Source: PwC estimates

### 6.3.2 Macroeconomic effects

As highlighted in the previous case study, South Australian real gross state product (GSP) is expected to increase by almost 25 per cent between 2012-13 and 2024-25 to be around \$120 billion (2011-12 dollars).

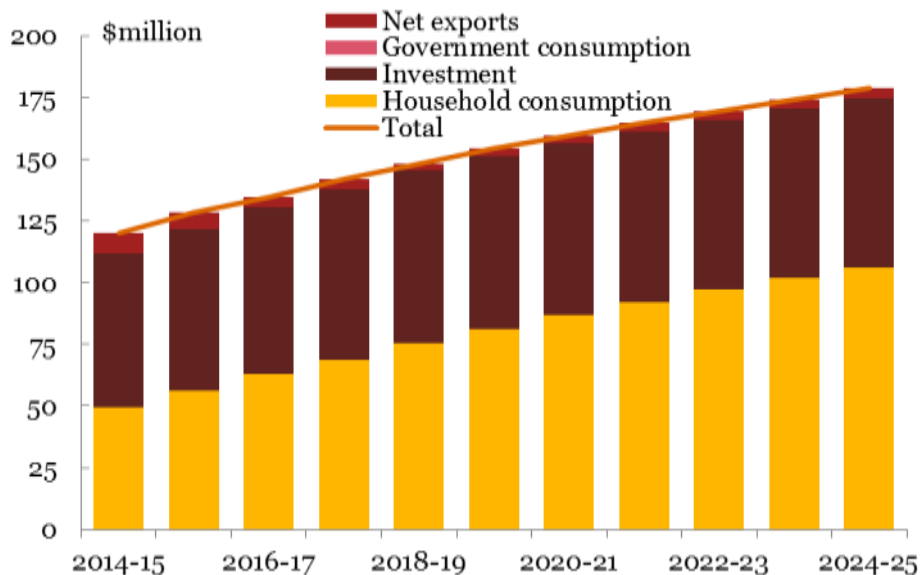
In the scenario modelled SA GSP would be \$308 million higher by the end of 2024-25 (see Table 10 and Figure 23). The increase in SA's output is driven by increased participation and productivity in the state economy, as injured people return to work earlier. Increased productivity leads to increased employment and real wages, which flows through to higher consumption and investment in the economy.

At the national level, increased activity in SA has spill-over effects to the rest of the Australian economy. Australian real GDP is expected to increase by \$307 million, driving real wage and taxation gains (see Table 10).

**Figure 23: Gross state product impact (\$million), cumulative deviation from baseline**

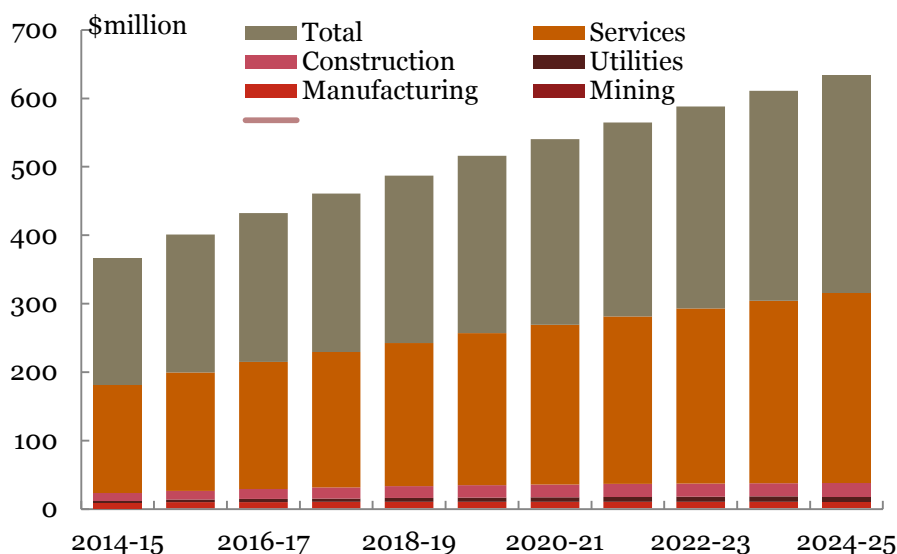
Source: PwC estimates

At the expenditure level, the increase in SA GSP is expected to be driven by household consumption and private investment, with a slight contribution from the external sector (both international and intra-state trade) (see Figure 24).

**Figure 24: Change to gross state product (expenditure side), cumulative deviation from baseline**

Source: PwC estimates

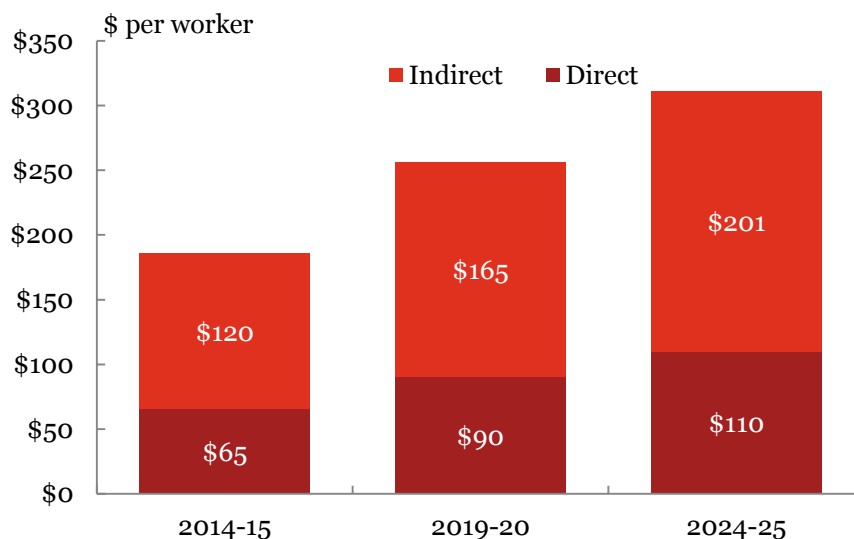
At the production level, almost 90 per cent of the increase in industry output is driven by the services sector, with around 6 per cent from the construction sector and 3 per cent in both the manufacturing and utilities sectors (see Figure 25). The increase in output from these sectors is directly linked to the number of employees in the state of SA and the relative number of claims per 1,000 employees (incidence rates) within each sector.

**Figure 25: Change to gross state product (production side), cumulative deviation from baseline**

Source: PwC estimates

### 6.3.3 The labour market effects

In the modelled scenario productivity per worker is expected to increase over time. Output per worker is estimated to be \$311 per worker higher by the end of 2024-25 (around 0.3 percentage points higher) (see Figure 26).

**Figure 26: Increase in output per worker, cumulative deviation from baseline**

Source: PwC estimates

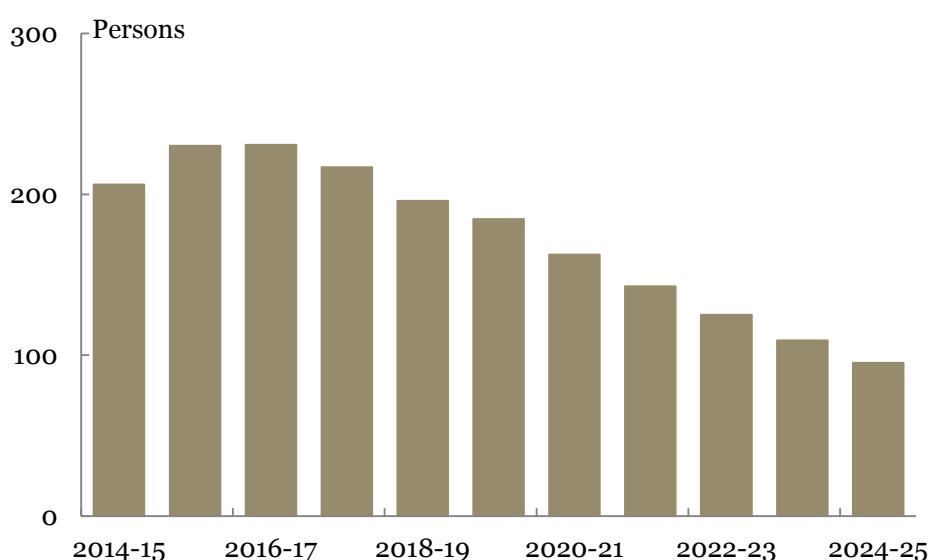
While output per worker increases, employment across the state is expected to be around 200 persons higher by the middle of the next decade (see Figure 27). However, public sector employment initially falls by around 400 persons in 2014-15, driven by a fall in public sector employees operating the SA CTP scheme. As labour moves to more productive industries of the SA

economy, many of these lost positions are more than offset by higher employment in other private sector industries. While some of these jobs are picked up in financial and insurance services as previously employed public sector CTP employees move to the private sector, this is around half of the gain in employment.

The other 50 per cent of the increase in employment between the base case and private underwriting of the scheme is in business services, construction, manufacturing and transport services. Increased employment in these industries reflects lower absenteeism and higher participation in the workforce as a result of lower claim duration under the privately underwritten scheme.

The increase in employment, while still positive compared to the base case, begins to wane from 2016-17. This is due to structural adjustment occurring over the longer term as labour moves between sectors and other states and territories of the Australian economy.

**Figure 27: Change in employment under private underwriting scenario**

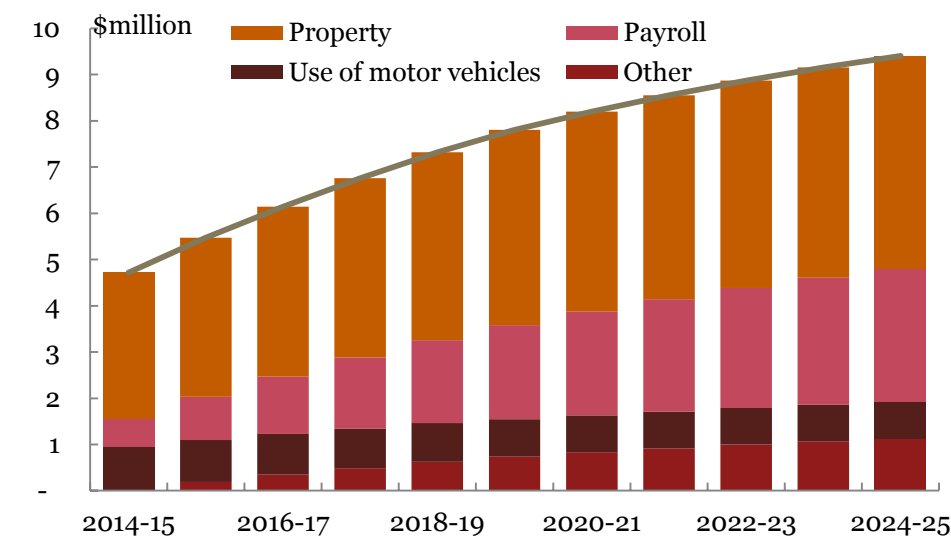


Source: PwC estimates

#### 6.3.4 Tax revenue effects

In line with an improvement in economic output, tax revenue to both the SA and Commonwealth Governments will increase in the modelled scenario. Taxation revenue to the SA Government would be \$9 million higher by the end of 2024-25.

**Figure 28: Increase in SA taxation collection, cumulative deviation from baseline**



Source: PwC estimates

This increase in state taxation revenue is driven predominantly by property and payroll tax collections (see Table 10 and Table 11).

While state taxes are \$9 million higher by the end of 2024-25, Commonwealth Government taxation revenue is \$57 million higher (see Table 11). The increase in Commonwealth Government taxation revenue in 2024-25 is driven by:

- income tax (\$24 million)
- corporate tax (\$14 million)
- GST<sup>67</sup> (\$10 million)
- excises and levies (\$6 million)
- other taxes (\$3 million).

<sup>67</sup> While total GST revenue is collected by the Federal Government, the revenue is re-distributed to all state and territory Governments.

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# Appendix A Economy-wide Modelling

## *Monash Multi Regional Forecasting (MMRF) Model*

The potential economic benefits of private underwriting of statutory insurance schemes in two jurisdictions of Australia were conducted using the Monash Multi Regional Forecasting (MMRF) model. It is a Computable General Equilibrium (CGE) model of the Australian economy initially developed at the Monash University,<sup>68</sup> updated by PwC, that models short and long-run economic equilibrium of the Australian economy.

This CGE model is widely used by the Australian Government, the Productivity Commission and the Australian Department of Treasury to quantify the second round impacts of a policy change.

It is highly detailed, distinguishing products produced by more than 60 industries. The high level of product detail means that many policy changes can be analysed without the need for further disaggregation of the product detail. It also means that the potential impacts such as benefits of private underwriting can be more fully captured. For example:

- the economy-wide impacts of changes that affect primarily the insurance industry and statutory insurance market underwritten by government
- the linkages between the insurance products, the rest of the Australian economy and the outside world due to the changes in insurance premiums and relative wages
- Specific relationship between capital owned and operated by government and capital owned operated by private sectors in the economy
- importantly, it has detailed state specification to model the potential impacts of private underwriting each jurisdiction separately.

Some of the key assumptions involved are as follows:

- Profit maximisation: the representative business in each industry chooses inputs and outputs to maximise profit subject to prices and a production function exhibiting constant returns to scale. This involves choosing inputs of capital and labour and outputs for the local and export markets.

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<sup>68</sup> Adams, P. D., J. Dixon, J. Gieseke and M. J. Horridge (2011), 'MMRF: Monash Multi-Regional Forecasting Model: A Dynamic Multi-Regional Applied General Equilibrium Model of the Australian Economy', *Centre of Policy Studies, Monash University*.

- Labour market equilibrium: in the long-run, the labour market is assumed to attain equilibrium, so that economic shocks, such as changes in capital and labour effectiveness, have no lasting effect on total national employment level. Rather, only the distribution of total employment across industries is affected and in the year on-year simulations, the economic benefits initially falls on both numbers of persons employed and real wages. In the long run, it falls on the real wages. It is implemented in the MMRF model that the deviation in national real wage rate increases through time in proportion to the deviations in national employment from its base case level. The coefficient of adjustment is chosen such that national employment effects of statutory insurance market reforms are largely eliminated after about 10-15 years, while the benefits of real wages continuously improve. This is consistent with the macroeconomic modelling in which the NAIRU is exogenous.

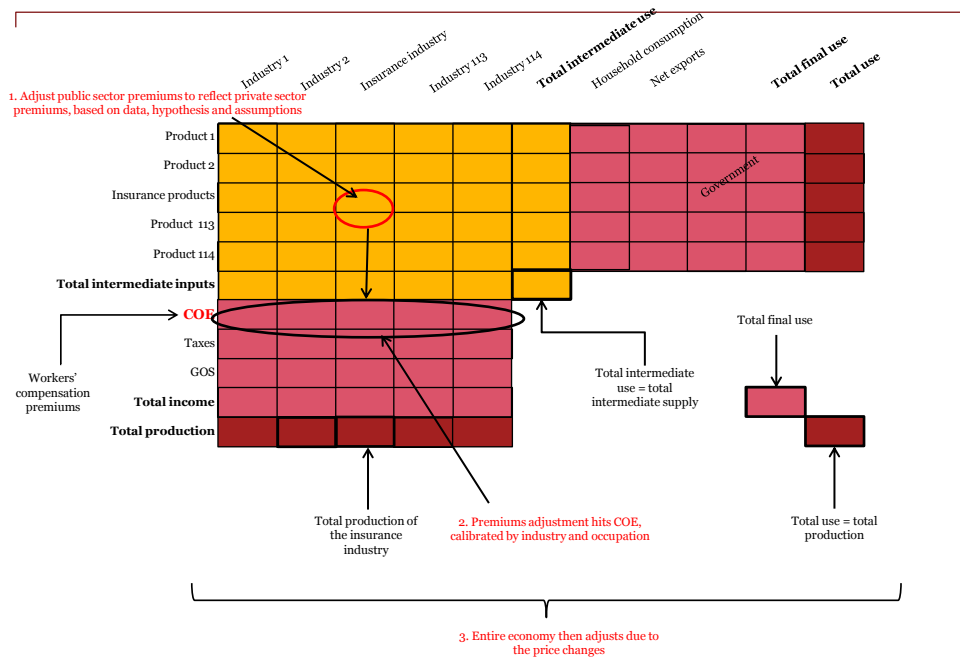
The MMRF model is a CGE model of the Australian economy. The model treats each of the six states and two territories as a separate economy, linked by inter-regional trade matrices. It is a bottom-up model, which includes a range of industries, commodities and labour types, aggregated to produce macroeconomic results. The model includes a representative household and government in each region, as well as the Australian government. Foreign demands are represented by downward sloping export demand curves, and import prices are given. MMRF also accounts for state and territory taxes, including income and payroll taxes, fringe benefit taxes, the GST, excise and other commodity specific taxes and tariffs. The model was run in dynamic mode and the reported effects are in terms of percentage deviations relative to a base case. The main dynamic adjustment mechanisms are that:

- Real wages are sticky in the short run and adjust through a partial adjustment mechanism to bring long-run employment back to base over a ten year period
- Capital stocks grow in line with expected rates of return, and investment demand is driven by the change in capital stock (allowing for depreciation). An adjustment process allows for short-run disequilibrium in the rate of return on capital.

### *Structure of the model*

Core of any CGE model are input-output tables as shown in Figure 26. The model captures the forward and backward linkages in the economy and provides the economy-wide impacts of private underwriting, after taking into consideration of behavioural responses by the businesses, insurance firms and the consumers.

**Figure 29: Schematic representation of the economy-wide model implementation**



Source: ABS and PwC

### *Workers compensation premiums in the model*

Workers compensation premiums are part of the compensation to employees (COE) by each industry in the MMRF model. Australian Bureau of Statistics (ABS) data on labour costs by industry<sup>69</sup> are applied to disaggregate labour costs from the MMRF model COE. The shares of workers compensation premiums in the total COE for industries are estimated from the ABS data and mapped to the to the MMRF industries. These mappings are adjusted by using RAS method to balance the row vector of workers compensation premiums by state using state workers compensation costs from state industry COE.

### *Industry mappings*

The modelling uses the ABS industry classifications as defined by the Australian and New Zealand Standard Industrial Classification (ANZSIC).<sup>70</sup> The ANZSIC classification splits industries into four levels from the broadest category, divisions (such as manufacturing), to the finest level, groups and

<sup>69</sup> Australian Bureau of Statistics (2012), '6348.0 – Labour Costs, Australia, 2010-11', *Australian Bureau of Statistics*, available at <<http://www.abs.gov.au/AUSSTATS/abs@.nsf/DetailsPage/6348.02010-11?OpenDocument>>

<sup>70</sup> Australian Bureau of Statistics (2006), 'Australian and New Zealand Standard Industrial Classification 2006', *Australian Bureau of Statistics*, available at <[http://www.ausstats.abs.gov.au/Ausstats/subscriber.nsf/0/5718D13F2E345B57CA257B9500176C8F/\\$File/12920\\_2006.pdf](http://www.ausstats.abs.gov.au/Ausstats/subscriber.nsf/0/5718D13F2E345B57CA257B9500176C8F/$File/12920_2006.pdf)>

classes (meat processing manufacturing). While the modelling used in this report uses all 114 subdivisions from ABS input-output tables,<sup>71</sup> results are reported into the 20 broad ABS consistent divisional levels. In addition, ten divisional related industries were aggregated into four aggregate industries given the key attributes and similarities of these industries (see Table 12). For example, public administration and safety, education and training and health care and social assistance have been aggregated and reported in the modelling as 'Public services'. This is due to the nature of these industries and the majority of these industries being provided by the public sector.

**Table 12: Breakdown of PwC defined industries**

	Further defined?	Aggregated industries
Agriculture, forestry and fishing	x	-
Mining	x	-
Manufacturing	x	-
Electricity, gas, water and waste services	x	-
Construction	x	-
Wholesale & retail trade	Yes	Wholesale trade Retail trade
Accommodation and food services	x	-
Transport, postal and warehousing	x	-
Information media and telecommunications	x	-
Financial and insurance services	x	-
Business services	Yes	Rental, hiring and real estate services Professional, scientific and technical services Administrative and support services
Public services	Yes	Public administration and safety Education and training Health care and social assistance
Other services	Yes	Arts and recreation services Other services
Ownership of dwellings	x	-

Source: ABS and PwC

<sup>71</sup> Australian Bureau of Statistics (2013), '5209.0.55.001 – Australian National Accounts: Input-Output Tables, 2009-10', *Australian Bureau of Statistics*, available at <<http://www.abs.gov.au/AusStats/ABS@.nsf/MF/5209.0.55.001>>

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## *Appendix B Comcare example*

To understand the efficiencies and return to work differences between private and public sector insurance providers in workers compensation schemes, PwC was unable to compare privately underwritten states (Western Australia) and publicly underwritten states (Victoria) because of scheme design issues between regions. The differences in administrative costs per claim and return-to-work rates could be driven by procedures and requirements which differ between states.

As a comparison, PwC used Comcare to see whether efficiencies between public and private underwriters could be obtained.

Given Comcare has both public (Comcare) and private (self-insurers) underwriters operating in the same scheme, some indicative differences between the operational efficiencies of Comcare and self-insurers can be deduced given scheme design issues appear to be controlled for. According to 2012-13 Comcare annual report data:<sup>72</sup>

- Average payments, medical and rehabilitation expenditure, legal, administrative and regulatory costs are all lower per claim
- Claim continuance rates beyond 11 weeks are lower for self-insurers compared with the publicly managed Comcare.

While the Comcare data provides some indicative potential benefits that may be achieved with the private underwriting there are underlying unobserved issues that may be impacting the results. Given the heterogeneous nature of employees and businesses covered under both schemes these results should be used for indicative purposes only.

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<sup>72</sup> Safety, Rehabilitation and Compensation Commission, 'SRCC Annual Report 2012-2013', *Australian Government*, available at <[http://www.srcc.gov.au/publications/srcc\\_corporate\\_documents/srcc\\_annual\\_reports/srcc\\_reports/srcc\\_annual\\_report\\_2012\\_-\\_2013](http://www.srcc.gov.au/publications/srcc_corporate_documents/srcc_annual_reports/srcc_reports/srcc_annual_report_2012_-_2013)>

**Table 13: Cost per claim between Comcare and Licensees operating under the Comcare scheme**

<b>Cost per claim</b>	<b>Comcare</b>	<b>Licensees</b>	<b>Total</b>
Paid to claimant (\$m)	\$ 882	\$ 446	\$ 696
Medical and rehab (\$m)	\$ 380	\$ 273	\$ 334
Legal, administrative and regulatory costs (\$m)	\$ 406	\$ 396	\$ 402
<b>Total</b>	\$ 1,668	\$ 1,114	\$ 1,431
<b>% difference (Licensee vs. Comcare)</b>			
Paid to claimant (\$m)	-49%		
Medical and rehab (\$m)	-28%		
Legal, administrative and regulatory costs (\$m)	-2%		
<b>Total</b>	-33%		
Claims continuance beyond 13 weeks	-11%		

Source: Comcare 2012-13 Annual report and PwC estimates

# Appendix C NSW economic background

This section of the report is designed to provide the reader with an overview of the NSW economy and how the composition of the economy compares with the rest of the country. The industrial composition, employment and wage levels in each state will have a major impact on how a policy change will flow through the economy.

## Industry composition

In 2012-13, gross state product in NSW was over \$475 billion and was approximately 30 per cent of the Australian economy. The major industries in the NSW economy are: financial and insurance services (13 per cent of output), professional, scientific and technical services (8.1 per cent) and manufacturing (7.9 per cent). While showing similar characteristics as the rest of the Australian economy, NSW has a larger focus on financial and business related services and less of a presence in the mining and construction industries (see Table 14).

**Table 14: 2012-13 % of economic output (NSW vs. Australian average)**

	New South Wales	Australia	Change
Agriculture, forestry and fishing	1.7%	2.4%	■
Mining	2.9%	8.6%	▼
Manufacturing	7.9%	7.1%	■
Electricity, gas, water and waste services	2.9%	3.1%	■
Construction	5.5%	8.3%	▼
Wholesale trade	4.6%	4.3%	■
Retail trade	4.6%	4.9%	■
Accommodation and food services	2.9%	2.4%	■
Transport, postal and warehousing	5.1%	5.2%	■
Information media and telecommunications	4.3%	3.0%	▲
Financial and insurance services	12.9%	8.7%	▲
Rental, hiring and real estate services	3.0%	2.7%	■
Professional, scientific and technical services	8.1%	7.3%	■
Administrative and support services	3.5%	3.1%	■
Public administration and safety	5.3%	5.6%	■
Education and training	5.0%	4.9%	■
Health care and social assistance	6.7%	6.9%	■
Arts and recreation services	1.1%	0.9%	■
Other services	2.0%	1.9%	■

Source: Australian Bureau of Statistics (2013), '5220.0 – Australian National Accounts: State Accounts, 2012-13', Australian Bureau of Statistics, available at <<http://www.abs.gov.au/ausstats/abs@.nsf/mf/5220.0>>

Similarly to output, the employment composition of the NSW economy is slightly different to the national average with a higher proportion of people employed in financial and insurance services and accommodation and food

services. This is offset by lower employment in agriculture, mining, manufacturing, construction, retail trade and public administration (see Table 15).

**Table 15: 2013-14 Per cent of industry employment (NSW vs. Australian average)**

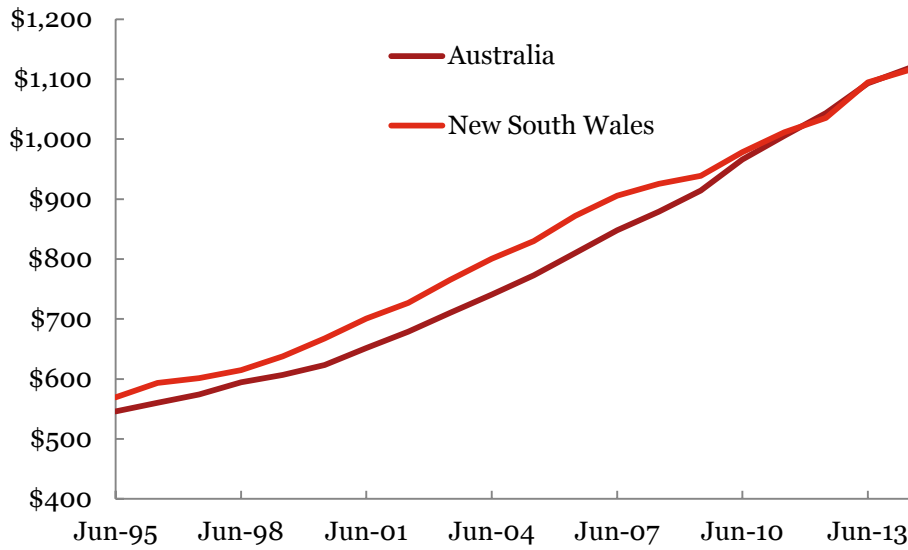
	New South Wales	Australia	Change
<i>Agriculture, forestry and fishing</i>	2.3%	2.7%	▼
<i>Mining</i>	1.2%	2.3%	▼
<i>Manufacturing</i>	7.7%	8.1%	▼
<i>Electricity, gas, water and waste services</i>	1.2%	1.3%	▼
<i>Construction</i>	8.3%	8.9%	▼
<i>Wholesale trade</i>	3.8%	3.4%	▲
<i>Retail trade</i>	10.2%	10.6%	▼
<i>Accommodation and food services</i>	7.2%	6.6%	▲
<i>Transport, postal and warehousing</i>	5.2%	5.1%	▲
<i>Information media and telecommunications</i>	2.1%	1.7%	▲
<i>Financial and insurance services</i>	4.9%	3.6%	▲
<i>Rental, hiring and real estate services</i>	1.8%	1.8%	▲
<i>Professional, scientific and technical services</i>	8.4%	7.9%	▲
<i>Administrative and support services</i>	3.3%	3.4%	▲
<i>Public administration and safety</i>	5.9%	6.5%	▼
<i>Education and training</i>	7.8%	7.8%	▲
<i>Health care and social assistance</i>	12.3%	12.1%	▲
<i>Arts and recreation services</i>	1.8%	1.8%	▲
<i>Other services</i>	4.4%	4.2%	▲

Source: Australian Bureau of Statistics (2014), '6291.0.55.003 – Labour Force, Australia, Detailed, Quarterly, Aug 2014', Australian Bureau of Statistics, available at <http://www.abs.gov.au/ausstats/abs@.nsf/mf/6291.0.55.003>

### *Aggregate wages and labour market*

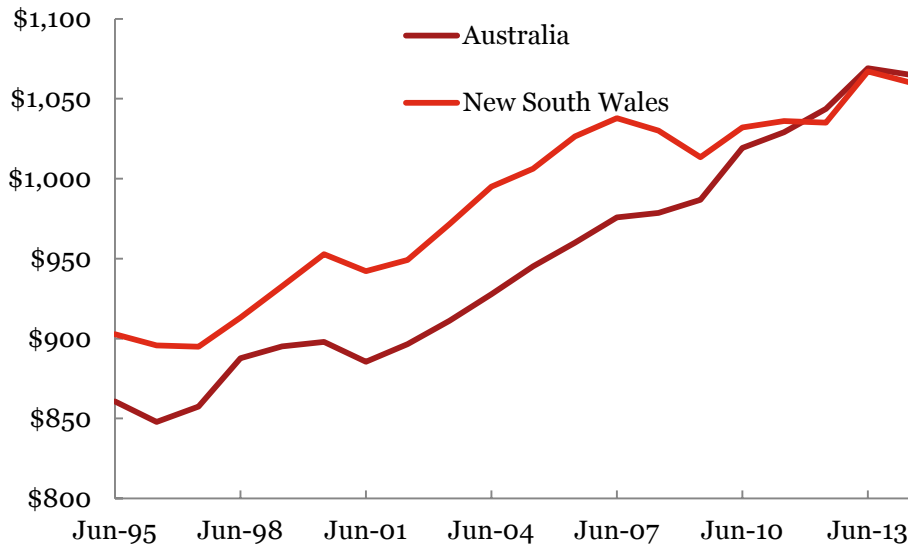
While both nominal and real average weekly earnings were higher in the decade up to 2010-11, wage levels in New South Wales have been lower than the national average over the past two years (see Figure 30 and Figure 31).

**Figure 30: Average Weekly Earnings (Australia vs. New South Wales)**



Source: Australian Bureau of Statistics (2014), '6302.0 – Average Weekly Earnings, Australia, May 2014', Australian Bureau of Statistics, available at <http://www.abs.gov.au/ausstats/abs@.nsf/mf/6302.0>

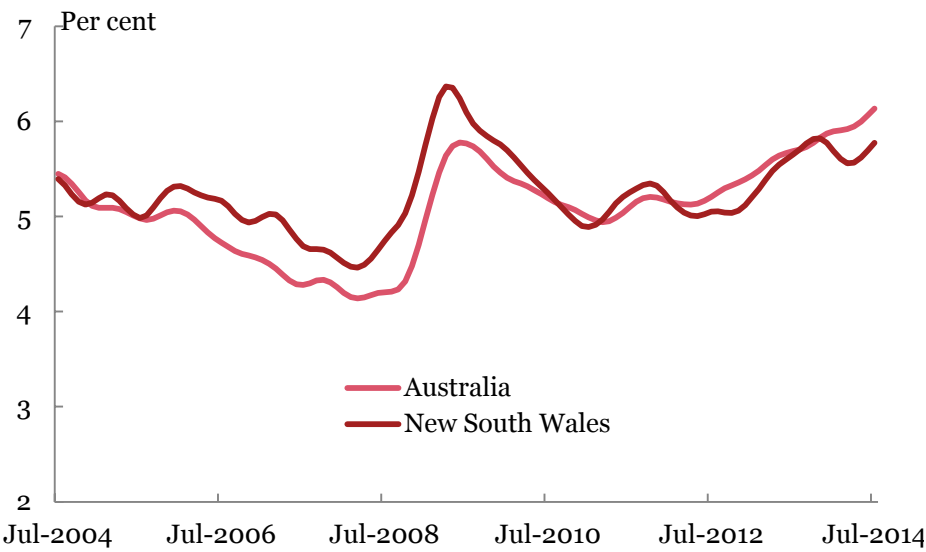
**Figure 31: Real Average Weekly Earnings (Australia vs. New South Wales)**



Source: Australian Bureau of Statistics (2014), '6302.0 – Average Weekly Earnings, Australia, May 2014', Australian Bureau of Statistics, and Australian Bureau of Statistics (2014), '6401.0 – Consumer Price Index, Australia, Sep 2014', Australian Bureau of Statistics

Over the past decade, the NSW unemployment rate has been higher than the national average (particularly over the period of the Global Financial Crisis). However, over the last year, as the unemployment rate in Australia has increased steadily, the unemployment rate in NSW has been slightly lower (see Figure 32).

**Figure 32: Unemployment rate, trend (Australia vs. New South Wales)**



Source: Australian Bureau of Statistics (2014), '6202.0 – Labour Force, Australia, Oct 2014', Australian Bureau of Statistics

# Appendix D

## SA economic background

This section of the report is designed to provide the reader with an overview of the SA economy and how the composition of the economy compares with the rest of the country. The industrial composition, employment and wage levels in each state will have a major impact on how a policy change will flow through the economy.

### Industry composition

In 2012-13, gross state product in SA was over \$95 billion and was approximately 6 per cent of the Australian economy. The major industries in the SA economy are: health care and social assistance (9.1 per cent), manufacturing (8.3 per cent of output) and financial and insurance services (7.3 per cent). While showing similar characteristics as the rest of the Australian economy, SA has a larger focus in agriculture, manufacturing, electricity and gas, public administration and health care and social assistance (see Table 16).

**Table 16: 2012-13 Per cent of economic output (SA vs. Australian average)**

	South Australia	Australia	Change
Agriculture, forestry and fishing	5.8%	2.4%	▲
Mining	3.6%	8.6%	▼
Manufacturing	8.3%	7.1%	▲
Electricity, gas, water and waste services	5.0%	3.1%	▲
Construction	7.1%	8.3%	■
Wholesale trade	4.4%	4.3%	■
Retail trade	5.2%	4.9%	■
Accommodation and food services	2.5%	2.4%	■
Transport, postal and warehousing	4.6%	5.2%	■
Information media and telecommunications	2.4%	3.0%	■
Financial and insurance services	7.3%	8.7%	■
Rental, hiring and real estate services	2.0%	2.7%	■
Professional, scientific and technical services	6.3%	7.3%	■
Administrative and support services	3.0%	3.1%	■
Public administration and safety	6.3%	5.6%	▲
Education and training	5.5%	4.9%	■
Health care and social assistance	9.1%	6.9%	▲
Arts and recreation services	0.9%	0.9%	■
Other services	2.4%	1.9%	■

Source: Australian Bureau of Statistics (2013), '5220.0 – Australian National Accounts: State Accounts, 2012-13', Australian Bureau of Statistics

Similarly to output, the employment composition of the SA economy is slightly different to the national average with a higher proportion of people

employed in agriculture, manufacturing and health care and social assistance. This is offset by lower employment in financial and insurance services and professional, scientific and technical services (see Table 17).

**Table 17: 2013-14 Per cent of industry employment (NSW vs. Australian average)**

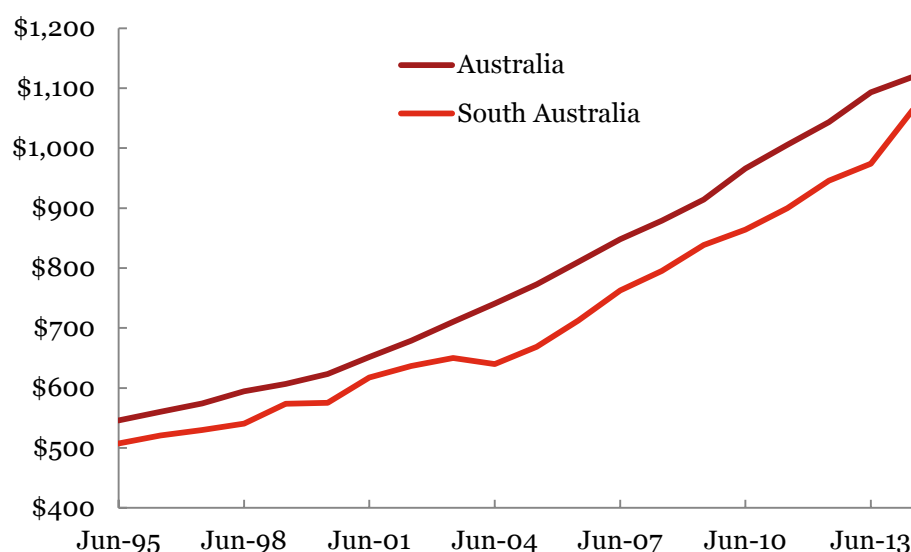
	South Australia	Australia	Change
<i>Agriculture, forestry and fishing</i>	5.1%	2.7%	▲
<i>Mining</i>	1.8%	2.3%	■
<i>Manufacturing</i>	10.2%	8.1%	▲
<i>Electricity, gas, water and waste services</i>	1.2%	1.3%	■
<i>Construction</i>	8.3%	8.9%	■
<i>Wholesale trade</i>	3.1%	3.4%	■
<i>Retail trade</i>	10.8%	10.6%	■
<i>Accommodation and food services</i>	6.5%	6.6%	■
<i>Transport, postal and warehousing</i>	4.9%	5.1%	■
<i>Information media and telecommunications</i>	1.2%	1.7%	■
<i>Financial and insurance services</i>	2.6%	3.6%	▼
<i>Rental, hiring and real estate services</i>	1.4%	1.8%	■
<i>Professional, scientific and technical services</i>	5.8%	7.9%	▼
<i>Administrative and support services</i>	3.4%	3.4%	■
<i>Public administration and safety</i>	7.0%	6.5%	■
<i>Education and training</i>	7.7%	7.8%	■
<i>Health care and social assistance</i>	13.8%	12.1%	▲
<i>Arts and recreation services</i>	1.4%	1.8%	■
<i>Other services</i>	3.8%	4.2%	■

Source: Australian Bureau of Statistics (2014), '6291.0.55.003 – Labour Force, Australia, Detailed, Quarterly, Aug 2014', Australian Bureau of Statistics

### *Aggregate wages and labour market*

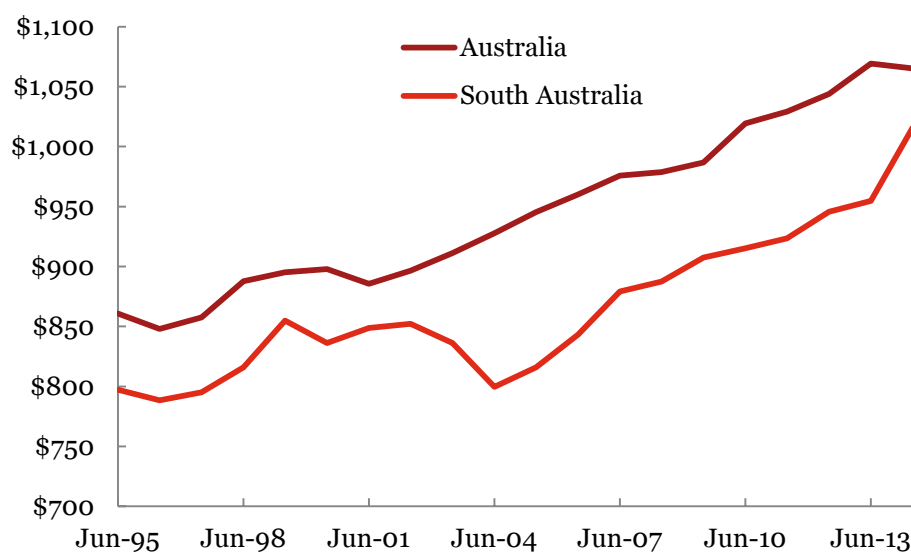
Labour market outcomes in South Australia have been consistently lower than the national average over the past decade. Even with an improvement relative to the rest of the country in 2013-14, wages in South Australia are still \$2,900 per year lower than the rest of the country and real wages are almost 5 per cent lower (see Figure 33 and Figure 34).

**Figure 33: Average Weekly Earnings (Australia vs. South Australia)**



Source: Australian Bureau of Statistics (2014), '6302.0 – Average Weekly Earnings, Australia, May 2014', Australian Bureau of Statistics, and Australian Bureau of Statistics (2014), '6401.0 – Consumer Price Index, Australia, Sep 2014', Australian Bureau of Statistics

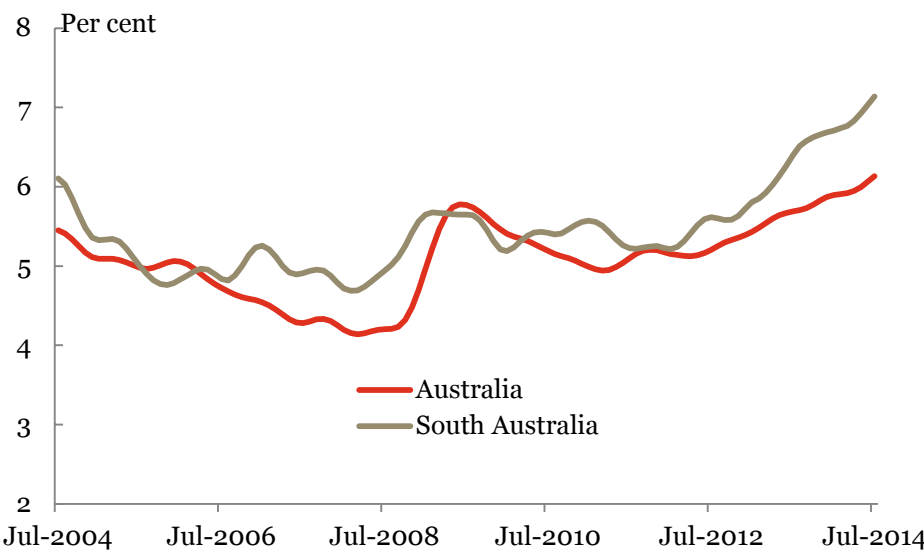
**Figure 34: Real Average Weekly Earnings (Australia vs. South Australia)**



Source: Australian Bureau of Statistics (2014), '6302.0 – Average Weekly Earnings, Australia, May 2014', Australian Bureau of Statistics, and Australian Bureau of Statistics (2014), '6401.0 – Consumer Price Index, Australia, Sep 2014', Australian Bureau of Statistics

Over the past decade, the SA unemployment rate has been higher than the national average, with the gap increasing over the past two years (see Figure 32). In July 2014, the SA unemployment rate was 1 percentage point higher than the rest of the country with the rate of unemployment in the state reaching its highest rate since 2001.

**Figure 35: Unemployment rate, trend (Australia vs. South Australia)**



Source: Australian Bureau of Statistics (2014), '6202.0 – Labour Force, Australia, Oct 2014', Australian Bureau of Statistics



