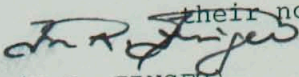


CONFIDENTIALCABINET DECISIONNO. 549

Submission No.: 449
Title: ADMINISTRATION OF GOVERNMENT INSURANCE AND
COMPULSORY THIRD PARTY FUNDS

Cabinet decided -

- (a) that suitable insurance cover be effected by Departments and Authorities with respect to Government assets under their control and liabilities resulting from injuries suffered by members of the public and employees,
- (b) that a Northern Territory Government Insurance Office be established with authority to transact all forms of general insurance, including the insurances referred to in (a). However, it is not intended to enter any field other than Third Party and Workmens Compensation for the time being and a further Cabinet Submission is required recommending a staged entry into the general insurance field,
- (c) that the Northern Territory Government Insurance Office transact all Compulsory Third Party and Workmens Compensation insurance in the Northern Territory,
- (d) that drafting of a suitable enactment along Statelike lines, under which such an Insurance Office could be incorporated, controlled and managed, be undertaken,
- (e) that the Government Insurance Office be a statutory corporation outside the Public Service and will be expected to conduct its operations along normal commercial lines within the limits of the statutory obligation within which it will be required to operate,
- (f) that the Insurance Office should be established in time to commence business on 1 July 1979 and a Committee consisting of the Under Treasurer, Solicitor General and Secretary, Department of Transport and Works, or their nominees should act forthwith to recruit a


(M.R. FINGER),
Secretary to Cabinet.

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CABINET DECISION

NO. 549

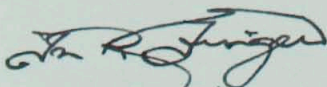
Submission No.: 449

Title: ADMINISTRATION OF GOVERNMENT INSURANCE AND
COMPULSORY THIRD PARTY FUNDS

2.

General Manager for the Corporation and co-ordinate all the necessary activities with that commencement date in view,

- (g) that the above Committee report progress monthly to Cabinet.


(M.R. FINGER),
Secretary to Cabinet.
2 January 1979

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THE NORTHERN TERRITORY OF AUSTRALIA

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Copy No. 1

FOR CABINET


SUBMISSION No. 449

Title:	Administration of Government Insurance and Compulsory Third Party funds.
Cabinet Member	M. B. Perron, Treasurer
Purpose:	To approve of the creation of a Government Insurance Office to manage, in particular, the insurance of Government risks and a centralised compulsory third party insurance scheme now under consideration for the Territory.
Relation to existing policy:	No previous decision on this issue.
Timing/ legislative priority:	New legislation will need to be completed for introduction in February 1979.
Announcement of decision, tabling, etc.:	More impact will be gained by announcing this decision at the time the impending report from the Commonwealth Actuary on Third Party is available.
Action required before announcement:	None
Staffing implications, numbers and costs, etc.:	No extra public service staff will be required.
Total cost:	An initial advance of \$250,000 is recommended to set up the N.T.G.I.O.

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Comment by Director of Finance:	ADMINISTRATION OF GOVERNMENT INSURANCE AND COMPULSORY THIRD PARTY FUNDS
Signed:	Approved/Not Approved
Date:	

Comment by Public Service Commissioner:	Submission indicates no additional Public Service Staff will be required. Presume intention is to staff outside the Public Service Act. It would appear significant numbers of employees will be required and without some form of relationship between proposed G.I.O. staff and the N.T.P.S. in respect of terms and conditions of service and salary levels a 'poaching' or 'bidding up' situation could occur. Considered essential that P.S.C. comments on draft legislation in this area before Cabinet decision. Attachment "A" to the submission whilst an indication of an approach to managing the organisation appears superficial and it would appear necessary to undergo further work on costing for staff, accommodation etc. before making a commitment.
Signed:	Approved/Not Approved
Date:	
	G. GASKILL for Public Service Commissioner 11 December 1978

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Issues

1. The issues are -

- (a) The policy which the Government should adopt in relation to the insurance of Government assets and liabilities for damages as a result of injuries suffered by members of the public or employees.
- (b) If the Government agrees that Government assets and liabilities should be insured, whether that insurance should be effected through a Government Insurance Office, by means of a government Self-Insurance Fund, or by other means.
- (c) If action is taken to establish a Government Insurance Office or a Government Self-Insurance Fund, whether the proposal should also embrace the Compulsory Third Party insurance which the motorist is required to take out.

Background

Insurance by the Commonwealth and States

2. Whilst Commonwealth authorities effect insurance, the Commonwealth Government carries its own risks to the greatest extent possible and, as a result, acts as a self-insurer.

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3. In the States, practice with regard to the insurance of Government property and liabilities varies between the States and may also vary between the Departments and Authorities of a State. In some instances, particular types of insurance may be effected (e.g. Motor Vehicle, Third Party, Employees' Compensation)-generally with the State Government Insurance Office - but not other types of insurance (e.g. Fire, Public Liability). In addition, some self-insurance arrangements may apply, particularly with large Departments and Authorities. There is, therefore, no uniformity of practice regarding the insurance of Government assets and liabilities amongst Governments in Australia.

Insurance of Government Assets and Liabilities in the Northern Territory.

4. The extent of ownership of property by the Government and its Authorities and the extent of liability for damages are not known, but would be very substantial. Departments and Authorities have been advised to make their own insurance arrangements (including self-insurance) pending a determination of Government policy.

5. The Memorandum of Financial Agreements recognises that the Northern Territory is subject to substantial potential costs in respect of the loss or damage to insurable risks. As a result, the Commonwealth has agreed as follows -

(a) For a period of five years from 1 July, 1978, the Commonwealth will meet losses and liabilities of an insurance nature incurred by the Northern Territory Government or its Authorities, in excess of \$100,000 per occurrence. In relation to assets, this is on the understanding that individual restoration works are agreed as essential.

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(b) In addition, there will be an allowance of \$400,000 in the Territory's base revenue funding for the purpose of calculating the Stage 1 Tax Sharing Entitlement. This would provide the Northern Territory with a continuing annual amount in recognition of the insurable risk transferred from the Commonwealth to the Territory.

Third Party Insurance

6. As a result of the increase in Third Party insurance premium rates which are now the highest in Australia (Private Cars - \$154), a report has been obtained from Mr. S. W. Caffin, actuarial adviser, as to the alternative arrangements which could be adopted. A recommendation for a revised Third Party insurance scheme which includes a schedule of benefits similar to Workmens Compensation insurance and reduced premium rates is being examined by an interdepartmental committee which is expected to report shortly.

7. Mr. Caffin was not asked to consider the methods which might be adopted to administer a revised scheme. This question does, however, affect the insurance arrangements dealt with in this Submission.

8. In all States, private insurance companies have withdrawn, with only a few exceptions, from direct participation as Third Party insurers because of the losses incurred. The business is now transacted by Government instrumentalities, such as the Motor Accidents Insurance Board in Tasmania, or by the State Government Insurance Offices. In the Northern Territory, all registered insurance companies transact Third Party insurance as a condition of registration in the Northern Territory. There is little doubt from experience in the States that most of the companies would withdraw from this business if the condition was removed, in view of the substantial losses which they claim to have incurred to date.

9. The condition would be an important factor in deterring reputable general insurance companies from deciding to register in the Northern Territory, and for this reason should be considered for removal. On the other hand if it is removed, most of the existing companies could be expected to cease writing Third Party insurance.

Consideration of the Issues

(A) The Policy to be Adopted in Relation to the Insurance of Government Assets and Liabilities

10. Three alternatives are available to the Government for the provision of cover against the cost of losses or claims arising from the ownership of property or from injuries suffered by employees and other persons -

- (a) The risks are not insured and a policy of self-insurance is followed by the Government and its Authorities, or
- (b) The risks are insured or are not insured at the discretion of the responsible Department or Authority, or
- (c) The risks are insured in accordance with approved guidelines.

11. It should be noted that whichever arrangement is adopted would not affect the desirability of concluding 'knock-for-knock' agreements with the Commonwealth, other State Governments and insurance companies with reference to claims arising from the use of motor vehicles.

12. The principal arguments for the insurance of most of the property and other risks which are the responsibility of Departments and Authorities are -

- (a) The Northern Territory Government has limited funds. A substantial claim or a number of significant claims against a particular Department or Authority could cause serious financial problems for the Department or Authority of a kind not likely to be encountered by the Commonwealth with its larger resources.
- (b) Departments do not possess the insurance expertise necessary to ensure that no more than is necessary is paid out for claims, and in any case would need to seek guidance from insurance experts.
- (c) In the early years of government, estimates based on past experience as to the cost of claims may be an unreliable guide for the future; the best safeguard against the uncertainties of probable losses would be to pay premiums for insurance cover.
- (d) The Commonwealth is providing \$400,000 p.a. as a contribution towards the insurance of property, etc., transferred to the Northern Territory. The prudent course is for Departments and Authorities to pay this amount into an insurance fund which can be built up to provide insurance protection.
- (e) The insurance of Government property and the provision of insurance to the Government against third party risks would be a most valuable starting point of a Government Insurance Office.

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13. The principal arguments for self-insurance by the Northern Territory Government are -

- (a) The Commonwealth has followed this practice successfully for many years and is prepared to provide some limited support to a similar scheme for the Northern Territory.
- (b) Payment of premiums by the Northern Territory Government into an insurance fund could tie up scarce resources.
- (c) Self-insurance is the most economical method available, both as regards cost and manpower, as it minimises the amount of recording and administration.

14. The arguments against insurance fail to take into consideration adequately the limited financial capacity of the Northern Territory to meet unexpected costs. It is proposed that the appropriate principle to be applied by Departments and Authorities is that suitable insurance arrangements should be entered into with respect to all insurable risks under the control of each Department or Authority, including insurance with respect to liabilities resulting from injuries suffered by members of the public and employees. These insurances should be effected in accordance with approved guidelines.

(B) The Authorised Insurer for Government Assets and Liabilities

A Government Insurance Office

15. Following receipt of a report by Mr. S.W. Caffin, actuarial adviser, the Government is giving consideration to the question of establishing a Northern Territory Government Insurance Office.

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16. The decision which is made in relation to insurance of property owned by the Government and its Authorities and other risks will have a significant influence upon the successful development of the proposed Government Insurance Office. The referral of these insurance requirements to the proposed Government Insurance Office would be of great assistance to the Office in getting established. The expense loadings in the premium income received as a result of the Government insurance program would assist payment of essential administrative costs whilst the business of the Office was developing and would assist in building up reserves.

17. Important benefits which the Government Insurance Office could offer to Departments and Authorities would be -

(a) stable rates of premium, through the existence of a continuing contract with each Department and Authority. Such a contract would enable the Office to offset losses in one year against profits made in other years and would form the basis for reinsurance arrangements which would permit increasing retentions on own account as experience and reserves were developed.

(b) expertise in handling claims, with prospects for savings in claim settlements and an assurance that these advantages would continue to be available through a well trained Claims Department.

A Government Self-Insurance Fund

18. It is understood from press and other reports that the private insurance industry in the Northern Territory is strongly opposed to the formation of a Government Insurance Office, mainly on the grounds that unfair competition could result and that the proposed Office would not be a viable enterprise.

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19. The arguments put forward are not particularly impressive.

20. It is agreed that the insurance market in the Northern Territory is relatively small. This factor has been recognised by Mr. Caffin in his report. He points out that whilst a portion of the premium income earned by a Government Insurance Office would come from business obtained in competition with private insurance companies, in the early years in particular a major portion would come from the insurance of Government property and risks which were not previously insured under the Commonwealth self-insurance program. Some premium income could be obtained also as a result of new Government initiatives.

21. If, therefore, a compromise proposal is deemed appropriate, a two stage approach could be adopted to the introduction of a Government Insurance Office, as follows.

22. First Stage: A Government Self-Insurance Fund is established with the function of insuring all Government property and liabilities whilst taking advantage of the reinsurance coverage provided by the Commonwealth in respect of these items. The Commonwealth will meet the cost of that portion of any single claim which exceeds \$100,000 arising during the five years ended 30 June, 1983.

23. The Commonwealth has agreed also to pay \$400,000 p.a. in recognition of the volume of insurable risks transferred to the Northern Territory. This payment would be of material assistance in meeting the cost of insuring some Government assets and would facilitate the build-up of reserves by an Insurance Fund.

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24. Second Stage: The next 3 or 5 years should be a sufficient period in which to find out whether a Government Self-Insurance Fund is a viable enterprise and whether, from that experience, having regard to the reserves built up, a Government Insurance Office could then take over and operate responsibly without Territory or Commonwealth subsidisation.

(C) Compulsory Third Party Insurance

25. In paragraph 2.28 of his report Mr. Caffin points out that if, in addition to Government assets and other risks, all Third Party Insurance business is insured with the Government Insurance Office, the Office would receive a premium income which would form a basis from which future progress could occur. It would also provide a source from which a sizeable portion of the administration costs of the Office could be met initially.

26. These conclusions apply equally to a Government Self-Insurance Fund. Transfer of all Third Party insurance business to this fund, if the Cabinet decides to adopt that alternative, would assist materially with payment of essential administrative costs. It would also expedite the development of a staff with the expertise needed to handle a variety of insurance business and claims.

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Options

(A) Insurance of Government Assets and Liabilities

27. The options available are as follows -

- (a) Government assets and liabilities are not insured.
- (b) The assets are insured or not insured at the discretion of the responsible Department or authority.
- (c) The assets are insured in accordance with Government guidelines.

The third option is strongly supported.

(B) The Authorised Insurer for Government Assets and Liabilities

28. The choice is between a Northern Territory Government Insurance Office, or a Government Self-Insurance Fund as the first stage towards a Government Insurance Office which could emerge in 3 or 5 years time.

29. The former proposal is considered to be the proper solution and most advantageous to the Government. If other considerations favour the latter proposal it should be introduced with a transfer to a Government Insurance Office programmed to occur in 3 or 5 years time.

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30. The administrative arrangements which should be adopted for a Government Insurance Office are set out in detail in Mr. Caffin's report, an extract of which is at Attachment "A". It is proposed to submit a supplementary Submission dealing with the administrative arrangements when a decision upon the form of organisation is made.

(C) Compulsory Third Party Insurance

31. The options are -

- (a) Retain the existing system of insurance through private insurance companies.
- (b) Set up a separate Third Party Insurance Trust.
- (c) Authorise the Government Insurance Office or Government Self-Insurance Fund to transact all Third Party insurances in the Northern Territory.

32. The first option has not been very successful to date and is the most costly.

The second option would result in two Government insurance organisations dealing with Government and the public in the Northern Territory. There would be a duplication of Boards, managers, staffs, accounting and record systems; investment arrangements, etc., which would involve unnecessary costs and a drain on the limited resources of skilled staff that are available.

The third option is the most economic and is proposed.

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Legislation

33. Legislation would be required to set up the Government Insurance Office (a draft Bill is included with Mr. Caffin's report) and if Third Party insurance is to be managed by a Government instrumentality. The legislation would delete the existing requirement for each general insurance company registered in the Northern Territory to transact Third Party insurance.

Legislation would not be required to set up the alternative of a Government 'Self-Insurance Fund.

Timing

34. An early decision in principle is needed if arrangements for a Government instrumentality are to be completed in time for a start to be made by 1 July 1979.

Recommendations

35. I recommend that Cabinet agree -

(a) that suitable insurance cover be effected by Departments and Authorities with respect to Government assets under their control for and liabilities resulting from injuries suffered by members of the public and employees.

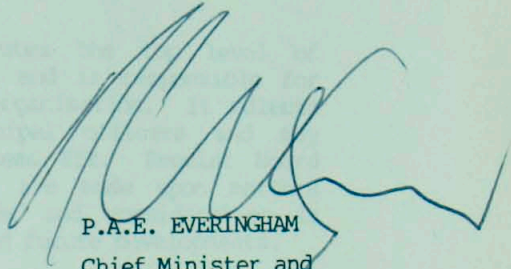
(b) that a Northern Territory Government Insurance Office be established with authority to transact all forms of general insurance, including the insurances referred to in Recommendation (a).

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- (c) that the Northern Territory Government Insurance Office transact all Compulsory Third Party insurance in the Northern Territory.
- (d) that drafting of a suitable enactment along Statelike lines, under which such an Insurance Office could be incorporated, controlled and managed, be undertaken.



P.A.E. EVERINGHAM
Chief Minister and
Acting Treasurer

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SECTION A - THE GOVERNMENT INSURANCE OFFICE

2.3 The organisation of an insurance office follows the pattern of other companies which are concerned with the collection, management and disbursement of monies on behalf of other people. The basic elements are the adoption of a line of authority and the allocation of staff into departments having responsibilities on a functional basis. There are usually four levels of authority -

- Board of Directors
- General Manager
- Executive Officers
- Departmental or Branch Managers

The Board of Directors

2.4 The Board of Directors constitutes the top level of authority in an insurance organisation and is responsible for the direction of the affairs of the organisation. It selects the general manager and other principal officers and may delegate to them such powers as it sees fit. Regular Board meetings are held at which decisions are made upon matters brought forward by the general manager and consideration is given to the progress of the business and future developments.

2.5 The principal matters to be taken into consideration in determining the composition of the Board of the Government Insurance Office are -

- (a) The transactions of an insurance organisation cover a great variety of activities and involve responsibilities of the directors to the policyowners that are similar in nature to the responsibilities of prudent trustees to the beneficiaries of a trust.
- (b) The particular circumstances in which the Government Insurance Office will operate require the directors to achieve an increasing volume of sales of general insurance policies in a small insurance market in competition with other well-manged companies. It will be necessary to ensure that the business obtained is self-supporting and that an efficient and friendly service is offered to policyowners and claimants.

2.6 In view of the matters discussed in paragraphs 2.4 and 2.5, it is most desirable that the directors are persons of high reputation and wide experience. In addition, some of the directors should possess a sound knowledge of some or all aspects of the business of insurance and the remainder should be selected because of their business or professional standing and ability. The volume of business likely to be written in the foreseeable future does not warrant a large Board, and it is suggested that 4 directors would be sufficient.

2.7 For these reasons, it is proposed that the Board of the Government Insurance Office should be made up of 4 directors selected by the Minister and appointed by the Administrator in Council, as follow -

The Proposed Board of Directors

1. A person who has insurance experience.
2. A person who has financial and investment experience.
3. A person who has experience in trade and commerce.
4. A legal practitioner.

2.8 The Chairman of the Board and the Deputy Chairman should be appointed by the Minister from the directors. A period of appointment of 5 years for each member of the Board appears to be appropriate.

2.9 The legislation should convey to the Board the responsibility for the direction of the affairs of the Office. This responsibility will include the selection and appointment of staff and agents, the approval of new business programs, rates of premiums and policy conditions, the authorisation of expenditure and other duties normally performed by a Board of Directors. Offers of the sale of existing general insurance portfolios to the Office should be dealt with by the Board in session, as well as offers by insurance brokers, reinsurance companies, direct writing companies and other persons or organisations to provide assistance and staff training.

The Board should be required to submit an annual report to the Minister for presentation to the Legislative Assembly.

The General Manager

2.10 The general manager is the chief executive officer and, subject to the directions of the Board, has the entire oversight and control of its affairs.

2.11 It will be necessary to appoint as general manager a person with suitable experience in the management of an insurance business. He should be capable of planning the organisation of the Office and of actively pursuing a program of development based on sound insurance principles. The Board should advertise the position and interview the applicants. The Minister's approval of the selected appointee will be required.

The Secretary

2.12 It will be necessary for the Board to appoint a Secretary as soon as possible to undertake the following functions -

Secretary to the Board and in charge of head office duties.

Control staff, including salaries and allowances.

Manage the accounts, property, official returns, preparation of statistics, etc., until such time as the appointment of an Accountant is justified.

The Agency Manager

2.13 An appointment should be made to this position as soon as the Office is able to do so. The progress of the insurance business will be materially assisted by a number of branches and agents distributed throughout the Northern Territory. Each branch will cover a specified geographical area and within that area will obtain new proposals for insurance and renewals of existing policies by means of agents who are remunerated on a commission basis. It is unlikely that a satisfactory flow of new business will be obtained if the sales organisation is limited only to these agents. Better results will be obtained if the agents are supervised by an Agency Manager who has overall responsibility for the sale of insurance policies and assistance to agents in making their sales. The Agency Manager will conduct training programs for the agents and other field staff as they are appointed to further develop sales of new policies.

2.14 The appointment of other executive officers is a matter for the Board to consider as circumstances warrant such appointments.