

1918.
VICTORIA.

REPORT

FROM THE

COMMITTEE OF PUBLIC ACCOUNTS

(STATE ACCIDENT INSURANCE OFFICE);

WITH AN

APPENDIX.

Ordered by the Legislative Assembly to be printed, 19th December, 1918.

By Authority:

H. J. GREEN, ACTING GOVERNMENT PRINTER, MELBOURNE.

D.—No. 2.—[6D.]—18009.

REPORT.

THE COMMITTEE OF PUBLIC ACCOUNTS has the honour to report to your Honorable House as follows:—

STATE ACCIDENT INSURANCE OFFICE.

1. When it was proposed to introduce legislation early in 1914 compelling employers in Victoria to insure their workers against accident, so that in the event of an employee being injured during the course of his employment he would receive compensation in accordance with the injuries sustained, it was suggested that a State Accident Insurance Office should be established under the provisions of the Workers' Compensation Act to enable employers, for a reasonable annual fee, to insure their workers against accident. This suggestion was acted on, and the Office, which has been in operation four years, has so far been conducted with satisfactory financial results.

2. As accident insurance under the provisions of the Workers' Compensation Act was a new business in this State, the rates of insurance were at the outset rightly fixed on a somewhat high scale. This step was taken not only to prevent the business being carried on at a loss to the State, but also to make it yield for a few years an annual profit, which would go towards building up a reserve fund to meet any abnormal claims which might be made on the office. The reserve fund has now reached £19,000, notwithstanding that during the past two years substantial reductions were made in the rates of insurance for many industries, experience having shown that in these callings the risks were not so great as had been anticipated. The rates in Victoria are lower than those charged in any of the Australian States except Queensland, where the State has a monopoly of the accident insurance business and also enters into competition with companies for fire insurance and other risks.

3. In both Victoria and Queensland it is compulsory for employers to insure their workers against accident, but in the other States and New Zealand it is optional. In New Zealand, Queensland, and Victoria the Governments have State Accident Insurance Offices.

4. The nett premiums received by the Victorian Office were—1915-16, £25,646; 1916-17, £26,249; 1917-18, £27,426. The total sums paid in claims were—1915-16, £10,418; 1916-17, £10,933; 1917-18, £11,227. Expenses of management, including agents' commission, came to £5,421 in 1915-16; £5,417 in 1916-17; and £5,247 in 1917-18. The nett profits were as follow:—1915-16, £10,964; 1916-17, £7,046; 1917-18, £8,074. In addition to a reserve fund being established bonuses were granted out of profits to those who during the last three years insured with the office.

COMPETITION BETWEEN THE STATE AND COMPANIES.

5. On the State Accident Insurance Office being established in 1914 an honorable understanding was come to between the State Insurance Commissioner and the companies carrying on accident insurance business in Victoria regarding the conduct of business and rates to be charged for insuring against accident those employed in the various industries and callings. That understanding, however, was departed from about two years ago, the State Insurance Commissioner breaking away from the arrangement, as, he said in evidence, he had been subjected to numerous "pin-pricks" from his competitors, "who had broken faith with him in assuming risks." He decided, with the approval of the then Chief Secretary, to go his way, letting the companies go theirs. He thereupon initiated, so far as Australia is concerned, the system of preferential discounts by which the larger employers received a reduction in rates over the smaller ones because their business, being paid in one large premium and one receipt only being given, was less expensive, or more profitable, than several smaller premiums, which entailed more clerical work. The State Insurance Commissioner strongly urged that this preference should not be discontinued, as he feared it would result in a loss of business. If his Office, through economical management or other causes, made substantial profits it should, he contended, be left free to attract business by distributing those profits to policy-holders in the shape of preferential discounts or bonuses to those whose business had materially assisted in making the profits. Reductions had been made in rates apart from these preferential discounts or bonuses, and all policy-holders had participated in those reductions.

6. The outcome of the disagreement between the State Insurance Commissioner and the forty-three companies conducting accident insurance has been a keen competition, each in turn under-cutting rates. So far the Commissioner has expressed his confidence in being able to meet the competition of the companies. He informed your Committee that he would have to make further reductions in the rates of a number of industries and callings to enable him to retain and extend business as against his competitors. This he has since done, announcing that the rates had now practically reached bedrock.

7. But while the State Insurance Commissioner considers that his latest reductions have brought the rates down to about bedrock, your Committee thinks it necessary to point out that there is nothing to prevent the other forty-three associated companies engaged in accident insurance from still further reducing rates. It must not be overlooked that the State Accident Insurance Office is by law restricted to one class of business, whilst its competitors also accept fire, marine, fidelity guarantee, live stock, burglary, and other risks from the public, and that if they so desired they could combine to raise the premiums in respect of all those risks, thus enabling them to so lower the rates for insurance against accidents to workers that the State Accident Insurance Office would lose much of its business, and probably become an unprofitable State undertaking. It would then be easy to start an agitation for the State to relinquish this unpayable business, and if the State Office were abolished it would be open to the companies to largely increase their rates.

REMEDIES SUGGESTED.

8. In view of the possible contingency foreshadowed in the preceding paragraph, your Committee gave careful consideration to the position of the State Accident Insurance Office. It is true that the Office has so far given satisfactory financial results, having been able to set aside a fair sum as a reserve fund, notwithstanding the reductions in rates. Neither must it be overlooked that it has no State or shareholders' capital on which interest or dividends have to be paid; and, consequently, in this way it has an advantage over its competitors. Nevertheless, the continuance of the State Accident Insurance Office seems necessary to prevent the associated companies at any time contending, were it out of the way, that their rates are unprofitable and must be increased. In the Appendix to this Report several specific instances are given where the State Office has lost business through being confined by the Workers' Compensation Act to insurance of workers against accident only, not being empowered to insure against other risks.

9. Three courses would appear to be open to prevent loss of business to the State Accident Insurance Office. The first is to follow the example of Queensland, and make accident insurance a State monopoly. While this step would probably cause the expenses of management to assume a smaller ratio to the amount of the premiums received than is at present the case, your Committee is of opinion that the time has not yet arrived for such a monopoly to be established. The second course is that the Governor in Council should be empowered to regulate the rates charged for the various risks, so that the under-cutting now existing may cease, and thus allow that financial stability to be retained which is essential to the successful carrying on of this class of business. This suggestion has its attractions. It may be urged that the competition has not been an evil, inasmuch as it has brought about a reduction in rates, and the public have benefited accordingly, and that ample experience has now been obtained to warrant the fixing of rates at amounts which are fair to employers and sufficient to permit reasonable profits to be made by the State Accident Insurance Office and the companies engaged in this class of business. But the objection to a fixation of rates is that such a course is practically useless unless the giving of bonuses, preferential discounts, rebates, or other concessions are prohibited, as these are really reductions of rates under another name, and could be used to defeat the fixation of rates. Moreover, the State Insurance Commissioner is opposed to any such prohibition, and most likely many, if not all, the managers of the companies would agree with his opposition to the discontinuance of bonuses, preferential discounts, and other concessions, as the stoppage of this distribution of part of the profits to policyholders would penalize the offices which were economically conducted or which did their business on sound lines. Then there is the difficulty of ascertaining where risks at other than the stipulated rates were accepted, and enforcing penalties for violation of the agreement.

10. The third course is to allow the State Accident Insurance Office to enter upon other lines of insurance, such as fire, marine, fidelity guarantee, burglary, personal accident, and other risks, thus extending the scope of its business and spreading its risks over a wider area, which tends to give greater security. This would place it more on an equality with those competing against it. The State Office is undoubtedly handicapped, as is shown in the instances given in the Appendix to this Report, by being restricted by legislation to one class of business only. Nevertheless, your Committee considers that the position of the State Accident Insurance Office does not at present justify the scope of that Office being so largely widened. It, however, is of opinion that the Office should be allowed to issue personal accident policies to employers and others; to undertake fidelity guarantees as regards those in the Commonwealth or State Service or in the employment of public, semi-Government, and municipal institutions; and to also accept fire risks over Government buildings and property, including closer settlement holdings, and over other public, semi-Government, or municipal buildings, including town halls and offices.

LACK OF ASSISTANCE TO STATE OFFICE.

11. Your Committee ascertained from Mr. W. H. Holmes, State Insurance Commissioner, that the State Accident Insurance Office was not receiving from some of the public and semi-public bodies that support which your Committee considers the office has a right to expect. For

instance, although the Government contributed one-third of the cost of the upkeep of both the Metropolitan Fire Brigade and the Country Fire Brigades and the insurance companies a similar sum, the State Accident Insurance Office received but one-third of the business of those brigades and the companies two-thirds. The State should have received at least half the accident insurance business of these fire brigades. It is an every-day occurrence to have reciprocity in business. A trader in buying usually expects the seller to purchase from him certain lines in which he deals. Many of the municipalities and institutions which from time to time receive grants from the Government insure their workers with the State Accident Insurance Office; but, on the other hand, there are a good number who patronize the companies, notwithstanding the financial assistance given them by the Government.

12. Your Committee considers that action should be taken to bring under the notice of these latter public bodies and institutions the fact that there is a State Accident Insurance Office, and that the Government expects them, in view of the monetary aid given them by Parliament, to do their business with that office. Should these representations prove unsuccessful in securing the business to that office, your Committee suggests that the Legislative Assembly should consider the question of making it a condition of such assistance that the business be so transacted unless the public body or institution has an insurance scheme of its own approved by a Judge of the County Court.

SCHEMES OF COMPENSATION.

13. It was ascertained by your Committee that the Railway Department had not so far insured its workers with the State Accident Insurance Office against accident, nor had it taken advantage of section 13 of the *Workers' Compensation Act 1915* to have a scheme of compensation formulated and approved by a Judge of the County Court. The Department, however, informed your Committee that a scheme is now in course of preparation for submission to a Judge of the County Court. It explained, in answer to questions asked by your Committee, that the *Workers' Compensation Act (Second Schedule)* only provides for the payment of half pay, with a maximum allowance of 30s. per week, in cases where the employee is incapacitated for work for a period of at least one week. But under the Department's regulations no reservation is made as to the minimum period of incapacity for work, nor is any limitation made as to the earnings of the employee or the maximum weekly payments. It will, therefore, be seen that railway employees who meet with an accident in the discharge of their duties are treated more liberally under the departmental practice than is provided in the Second Schedule to the *Workers' Compensation Act*. Your Committee ascertained that for many years past it has been the practice under the Department's regulations to grant "full pay to an employee incapacitated for duty through injury sustained in the active discharge of his duties in instances in which the accident has not in any way been due to the negligence of such employee; whilst half-pay is granted in the case of an employee adjudged partly to blame for the accident." In cases where railway employees are temporarily incapacitated for work as the result of an accident met with while performing their duties, the weekly allowance or payments are debited to the ordinary working expenses of the railways. It is only in cases of death or permanent disability that the amount paid as compensation are charged against the Railway Accident and Fire Insurance Fund. In this way the claims made on this fund in respect of accidents to railway employees are made to appear unusually low.

COMMONWEALTH CONTRACTORS.

14. Shortly after the establishment of the State Accident Insurance Office the Commonwealth Government agreed to the adoption of a provision in all its Victorian contracts that the contractor should insure his workers with that office. A similar provision had already been inserted in all State contracts and is in operation to-day. About two years ago, however, the State Government, acting mainly on representations made to it by the Victorian Chamber of Manufactures, wrote to the Commonwealth authorities asking the latter to strike that provision out of its contracts, and this request was acceded to. Your Committee received evidence on this matter from Mr. F. L. W. Ashby, Secretary of the Chamber. He stated that manufacturers and employers who were or intended becoming Commonwealth contractors had strongly objected to that provision, because their workers were already insured against accident with one of the associated companies, and when the employer or firm secured a Commonwealth contract in Victoria—the provision not applying to contracts in other States—he had to again insure such of his workers as were employed on that contract with the State Accident Insurance Office. This meant a double insurance, the taking out of two policies and payment of two premiums, though in practice it did not cause any increase in the total sum paid for insurance of the workers, as what was paid to the State Office was in the annual adjustment deducted from the amount to be paid to the insurance company. It was, Mr. Ashby said, difficult and sometimes impossible to determine when an accident occurred whether the employee was engaged on ordinary factory

or Commonwealth contract work. For instance, a man might meet with an accident when placing a belt on a shaft which was to operate several machines engaged on both classes of work, or when making a common stock manufacture from which goods to be sold both to the public and to the Commonwealth Departments were to be made.

15. Mr. W. H. Holmes, State Insurance Commissioner, when questioned on the matter, said that the difficulties mentioned by Mr. Ashby had been met and overcome by the exercise of common sense and a spirit of fair play and justice. An inquiry into the circumstances of the accident soon enabled an equitable adjustment of the respective liability of the State Office and the insurance company to be made. He urged the re-instatement of the State insurance provision in Commonwealth contracts, as it had caused a loss of from £1,000 to £2,000 a year in premiums to the State Accident Insurance Office. A compromise suggested by Mr. Ashby was that insurance with the State Office should apply only to such Commonwealth contracts as the erection or construction of public works, such as barracks, forts, post offices and other buildings, excavations, &c., where there could be no doubt or question raised as to the worker being solely employed on Government work. But if the contract were for a steel bridge, only those engaged in its actual erection, and not in the manufacture of the girders, &c., in the workshop, should be insured with the State Office. He added that some manufacturers refused to tender for Commonwealth work because of this double insurance provision, and that difficulty had been overcome by the manufacturer quoting a price at which the goods were to be supplied, the transaction thus being regarded as a sale with delivery over a stated period and not as a contract.

16. Your Committee believes from the evidence given by Mr. Holmes that there must have been some misapprehension of the facts on the part of the State Ministry when, towards the close of 1916, it asked the Commonwealth Government to delete from its contract conditions the provision as to insurance of workers engaged on Commonwealth contract work with the State Accident Insurance Office. After the explanation of Mr. Holmes, showing that while two policies have to be taken out there is no actual double payment of premiums for the same risk, and that when claims are made the respective liability of the State Office and of the associated insurance company can be readily adjusted on the facts of the accident being ascertained, your Committee came to the conclusion that no hardship was inflicted on Commonwealth contractors by such a provision being inserted in Federal contracts. It does appear on the face of it inconsistent for the State Government to retain in its contracts a provision requiring the insurance of workers with the State Office, and at the same time object to a similar provision being inserted in Commonwealth contracts. Believing that the Ministry in 1916 acted under a misapprehension of the facts, your Committee suggests that the State Government should urge the Commonwealth authorities to re-insert the provision in its contracts, applying it, if not to all contracts, at any rate to such public works as were indicated by Mr. Ashby.

STATE INSURANCE ASSESSOR.

17. Not only has the State Accident Insurance Office been instrumental in having the rates reduced to reasonable limits, but it has been of assistance to employers, workers, solicitors, and even to its rivals in business by freely giving advice when asked concerning the advantages of the Workers' Compensation Act, the scope of the law, procedure to be followed for the recovery of claims, and, where requested, has aided in the settlement of claims for compensation. All this was done in the public interests and without obtaining any fee for the trouble taken. Nevertheless, this work had to be paid for by the office at an annual cost of £500 or £600. The Royal Commission which reported last year on the State Public Service recommended the appointment of an assessor to deal with these matters, and the State Insurance Commissioner, when giving evidence recently before your Committee, supported this recommendation, urging that the assessor should be empowered to not only give advice and assistance, but to enforce his views as regards weekly settlements or regular payments to the injured during their period of incapacity, if it were not thought advisable to go further and authorize him to also adjudicate in those cases where payments were made in respect of death from accident.

18. Your Committee considers that an assessor should be appointed and the Act amended where necessary, so that claims could be handled with some authority and be promptly settled. It concurs in the view that whoever is appointed to that office should have a good knowledge of the Workers' Compensation Act and the law on that subject generally, and should be capable of arriving at a sound judgment on the facts placed before him. But this does not necessarily imply that the occupant of the office of assessor must be a barrister-at-law or must have the status and salary of a County Court Judge. The Commission suggested that those who avail themselves of the services of the assessor should be required to pay a small fee for the same to recoup the Consolidated Revenue.

T. TUNNECLIFFE,
Chairman.

Committee of Public Accounts Room,
State Parliament House,
Melbourne, 17th December, 1918.

APPENDIX.

State Accident Insurance Office,
Melbourne, 31st October, 1918.

SIR,

Reverting to the request made that I should supply specific instances where the fact of only one class of business being transacted by this office had resulted in business under the *Workers' Compensation Act 1915* being lost, I now attach a memorandum of a few of the cases in question.

Yours faithfully,

WM. H. HOLMES, •
Insurance Commissioner.

The Chairman, Public Accounts Committee.

RINGWOOD COOL STORES	..	} One line of business could not be done here, as the stores declined to split their insurance risk. The fire insurance is a heavy item, as the buildings are of wood.
DONCASTER COOL STORES	..	
BURWOOD COOL STORES	..	
CROYDON COOL STORES	..	
A MINING COMPANY	..	.. The manager had difficulty in placing his fire risk. The workers' compensation risk was with us. The insurance company told him that unless he gave them the workers' compensation risk they would not take his fire risk. The business was taken away from the "State" office.
FIRM A	..	.. This firm gives us most of their business, but decline to transfer it all, owing to their having to carry on fire agencies with companies.
FIRM B	..	.. Insured with the Melbourne Fire Office. Stated if he took his business away he was afraid the company would tell him to take the whole of his risk away.
FIRM C	..	.. Premium of over £100 due 7th November, 1918. Policy transferred to "State" office last year. It is possible we shall lose this business. Mr. Sullivan says his late insurance company have told him unless he transfers his workers' compensation business they will not take his third party, &c.
FIRM D	..	.. Said he would give the "State" office all his business, but, as he had a good deal of fire business, declined to transfer his workers' compensation business.
A MUNICIPAL COUNCIL	..	.. The fact of only one class of business being transacted by this office was used as an argument against the transfer of the business to this office when application was made.
FIRM E	..	.. Premium £60. The "State" office had this business and lost it, owing to the risk going with other insurances to one insurance office.