

# **WorkCover New South Wales**

## **PREMIUM and DEBT COLLECTION MANUAL**

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# SECTION 1

## INTRODUCTION

### **Addendum March 2005**

The Premium and Debt Collection Manual is a tool to help agents to calculate premiums and recover outstanding Scheme debts in accordance with the law.

The Manual is a guidance document only, and as with the other documents in the operational document set, the Manual should be read in conjunction with the Workers Compensation Act 1987, the Workplace Injury Management and Workers Compensation Act 1998, the Workers Compensation Regulation 2003, the Workplace Injury Management and Workers Compensation Regulation 2002, and orders, guidelines and other statutory instruments. In particular, users must be familiar with the Insurance Premiums Order applying to the year for which the premium is being calculated and the WorkCover wages definition manual.

The manual is currently being reviewed to take account of the new Scheme arrangements. WorkCover expects to release a further manual in the near future. The Manual contains references to Acts and Regulations which have been replaced or amended it will be necessary for users to check the current version of the Acts, Regulations and Insurance Premiums Order when applying the Manual. It is also important for users to be aware of the Nominal Insurer's Claims and Litigation Policy (operational instruction 34) which applies to the engagement of legal services providers to the new Scheme design.

Some operational instructions are directly relevant to the contents of this Manual and modify its contents.

### **Introduction**

This manual has been prepared for use in respect of premium calculations, demand for premiums, payment of premiums, late payment fee, collection of overdue premium debts and recovery of claims excesses and third party costs.

Note: Any reference to the "Act" is to be defined as the Workers Compensation Act 1987, Workplace Injury Management and Workers Compensation Act 1998 and associated Amendments and Regulations.

WorkCover in consultation with Insurers has updated the Premium and Debt Collection Manual. For easy reference the requirements of the updated Measure 3 are reproduced under section 9 of the manual, and an extract of the Accounting Manual in relation to Form 7 is reproduced under section 10.

The manual covers those areas which impact on the collection of premiums, late payment fee, claims excesses and third party costs.

The Premium and Debt Collection Manual sets out the minimum requirements of the actions that a licensed insurer **must** undertake in the management of the premiums

under their control. It follows that a licensed insurer may institute additional procedures, which will enhance their efficiency and effectiveness of the collection process, provided that they are not in conflict with this Premium and Debt Collection Manual.

- ✓ Licensed insurers have no discretion to accept less than 100% of a debt, except, upon approval from WorkCover or unless otherwise noted in this manual
- ✓ Licensed insurers have no discretion to avoid or withdraw from initiating or continuing legal proceedings. Where a debt remains unpaid, the Insurer **MUST** commence wind up or bankruptcy proceedings. The Insurer has no discretion to withdraw from such proceedings except with approval from WorkCover or unless otherwise noted in this manual.

The credit control function, in a broad sense, covers all areas of the correct issuing of the invitation to renew and where applicable deposit premium notices, demand for premiums, reminder notices for instalment payments, collection of premiums, (including the necessary actions for overdue premium), correct charging of late payment fee, the correct accounting (recording) of the transactions and reporting to the Authority of outstanding debtors.

The move to a focus on cash collected will lead to improved efficiency, effectiveness and economies. The objective of the cash collected methodology is to reach a net cash collected figure to measure against gross written premium plus late payment fees. That is, the net amount of premium and late payment fees collected less the costs associated with collecting the cash.

While the costs associated in collecting the premium and late payment fees impact on the level of cash collected, it does not change WorkCovers view that Insurers **must** have exhausted all attempts to collect all debts and **must** issue wind up and bankruptcy proceedings in accordance with jurisdictional limits. It is not WorkCovers' aim to simply reduce collection costs. An increase in collection costs would be acceptable provided that the collection rate ( cost of recoveries) is decreasing.

The manual no longer includes a cost recovery scale, Insurers are now able to negotiating an appropriate fee structure for the collection of debts specific to their cash collection strategies as well as maximising their own in house debt collection procedures.

## SECTION 2

### ISSUE OF PREMIUM CALCULATIONS (FORMS PG and PH) and DEMAND FOR PREMIUM

#### 2.1 Premium Calculations (Forms PG and PH)

An insurer may not demand a premium for the issue or renewal of a policy unless a Form PG/PH has been issued. (Part 4 of the Workers Compensation (Insurance Premiums) Regulations 1995).

#### 2.2 Demands for Premium

A demand for a premium is required to be issued at least once for each policy period and that is to be for the issue or renewal of a policy to which an insurance order applies. A demand for a premium may be a statement of account, invoice and or a letter of demand.

The form or wording of a demand for premium is not defined in the Regulations or the Act, however, any such demand should be in writing and, as a minimum, include the following:-

- ✓ Name and address of employer
- ✓ Date of issue of demand
- ✓ Policy number
- ✓ Policy period
- ✓ Premium payable
- ✓ GST amount
- ✓ Input Tax Entitlement
- ✓ Payment due date (s)
- ✓ If a statutory instalment premium the amount and payment due date of each instalment (1st and 2nd statutory instalment)
- ✓ If an adjustment,
  - ◇ the original amount paid (plus/less)
  - ◇ the adjusted premium amount
  - ◇ the extra amount payable or return premium
  - ◇ and due date.

## SECTION 3

### PAYMENT OF PREMIUMS and DUE DATES

#### 3.1 Statutory instalments (Category A employers)

For an employer to pay their Renewal Premium by statutory instalments, all the following must apply:-

- i) the period of insurance must be 12 months - No short term policies.
- ii) the employer is a category A employer (i.e. the basic tariff premium exceeds \$3,000).
- iii) the deposit premium **has been paid within 1 calendar month** after the commencement date of the period of insurance.

Part 7 of the Regulation sets out the rules under which an employer may pay premiums by statutory instalment.

Section 172(1)(b) of the Act deals with the non-payment of statutory instalment by the payment due date.

#### Employers transferring between Category A and Category B

Insurer Guideline No 95/39 gives guidance on the treatment of statutory instalments for such employers.

When transferring from Category A to Category B, WorkCover agrees to allow employers who have paid the deposit premium by the due date, to retain a right to instalments, provided that the neither the 1<sup>st</sup> or 2<sup>nd</sup> instalment are credit amounts.

#### Employers transferring between Category B and Category A

WorkCover agrees to allow employers who transfer from Category B to Category A to retain a right to instalments provided that :-

- i) the premium is not as a result of the employer failing to provide estimated wages on time and thereby the premium being calculated by multiplying the monetary value of wages for the immediately preceding equivalent period of insurance by 1.2 (being an Automatic premium calculation)
- ii) the deposit premium is paid within 7 days of the issuing of the estimated premium calculation. Insurers must directly notify

employers (eg by telephone or facsimile) so that they are aware of the requirement to pay within 7 days, and

- iii) the due date for instalments one and two remain in accordance with the regulated schedule

**Please note: 7 days of grace does not apply to the deposit premium for employers transferring from Category B to Category A. That is, the deposit premium must be paid within 7 days of issuing the estimated premium calculation.**

## **3.2 Payment due dates**

### *1 Calendar month*

The payment due date will be 1 calendar month from date of processing/charging the premium.

Example;

1. Premium processed on 30 June will have a due date of 31 July
2. Premium processed on 31 August will have a due date of 30 September
3. Premium processed on 31 December will have a due date of 31 January
4. Premium processed on 28 February will have a due date of 31 March
5. Premium processed on 15 April will have a due date of 15 May

This means that the due date could be a working day, a weekend or a public holiday.

**Note:-** When determining if a payment has been made by the payment due date the 7 consecutive calendar days of grace are to be taken into account.

### *Statutory Instalments*

To ensure a common and consistent approach by all insurers, for the payment of statutory instalment premiums, the **payment due dates for each statutory instalment** are to be interpreted as follows:-

### *Deposit Premium*

Payment must be received within 1 calendar month after the commencement (inception) date of the period of insurance.

eg.	commencement date	4th July
	must be paid by	4th August

### ***Statutory instalment 1 (first statutory instalment)***

Payment must be received **not** later than 4 calendar months after the commencement (inception) date of the period of insurance, provided that the deposit premium has been paid on or before its payment due date.

**Note:-** The employer is allowed to pay this statutory instalment at any time up to the 4 calendar months date, irrespective of the date of issue of the Form PG and demand for premium.

eg.	commencement date	4th July
	must be paid by	4th November

### ***Statutory instalment 2 (second statutory instalment)***

Payment must be received **not** later than 8 calendar months after the commencement (inception) date of the period of insurance, provided that statutory instalment 1 has been paid on or before its payment due date.

eg.	commencement date	4th July
	must be paid by	4th March

## **3.3 Non payment of a statutory instalment**

### ***Deposit Premium***

When the Deposit Premium is **not** paid in full by the payment due date, or is **short paid**, then the employer forfeits the right to pay the estimated premium by statutory instalments and the amount of the estimated premium unpaid becomes due and payable on the payment due date as determined for non statutory instalment category A employers as detailed in Section 3.5. (Refer to Sec 171, 172(1)(a) of the Act and clause 18(2) Part 7 of the Regulation.)

### ***Statutory instalment 1***

When statutory instalment 1 is **not** paid by the payment due date or, is **short paid**, then the employer forfeits the right to continue to pay by statutory instalments and the balance of the estimated premium unpaid becomes due and payable on the payment due date of statutory instalment 1, **provided** the Demand for Premium & Form PG has been issued.

### ***Statutory instalment 2***

When statutory instalment 2 is **not** paid by the payment due date or, is **short paid**, then the balance of the estimated premium unpaid becomes due and payable on the payment due date of statutory instalment 2

### 3.4 Calculation of each statutory instalment amount

The calculation of the size (amount) of each statutory instalment is set out in Part 7 of the Regulations. The method of calculation is best explained by example.

#### *Date for example statutory instalment calculation*

Estimated premium for last year	\$15,600
Estimated premium for this year	\$21,900
Actual premium for this year (calculated on expiry)	\$22,746

#### **Deposit Premium**

1/3rd premium for last year (\$15,600) **\$ 5,200**

#### **Statutory instalment 1**

2/3rd estimated premium this year (\$21,900) \$14,600  
**less** deposit premium **\$ 5,200**

Amount of statutory instalment 1 **\$ 9,400**

#### **Statutory instalment 2**

Estimated premium for this year \$21,900  
**less** amount paid deposit instal 1 **\$14,600**

Amount of statutory instalment 2 **\$ 7,300**  
(1/3rd initial (estimated) premium this year)

#### **Adjustment of Premium**

Actual premium for this year \$22,746  
**less** estimated premium this year **\$21,900**

Amount of Extra Premium : \$ 846

#### **Note:- *Deposit Premium***

The size of the deposit is to be one third (1/3rd) of the estimated premium for the employer for the just completed previous period of insurance. Where the policy is for a new employer the Deposit is to be a minimum of \$800 or such greater amount as the employer and the insurer may agree.

### 3.5 Reinstatement of Instalments

Late payment of statutory instalments results in category A employers forfeiting their rights to pay premiums by the statutory instalment option. The reinstatement of instalment rights is allowed after consideration of the following criteria:

1. Payment is received within 7 calendar days of the due date. An instalment becomes overdue when the relevant payment has not been received in the Licensed NSW Workers Compensation Insurers office, by the payment due date.
2. An employer has been disadvantaged or had rights of instalments compromised by inadequate processing by the insurer. These items should be reported to the WorkCover Authority prior to reinstating the instalments where it is considered the effects will adversely affect employers' entitlements.
3. Due to special circumstances further consideration is required. Examples of these may be Employers in extreme economic difficulties ie; farmers in drought affected areas and employers who are charity based operations. These require approval of the WorkCover Authority.

**Insurers are to maintain a record of all reinstatement of instalments, as this will be an area covered in the Insurer Performance Evaluation and Appeals Branch field review.**

### 3.6 Non statutory instalments - (Category B and some Category A employers)

#### *Applicable Employers*

Statutory instalments **do not** apply for Category B employers and Category A employers who do not fulfil the requirements to pay by instalments except where Insurer Guideline 95/39 applies. Refer to 3.1 for details.

#### *Estimated Premium*

The payment due date is to be **1 calendar month** after the issue date of the respective Form PG/PH and Demand for Premium. Section 172 (1)(a) of the Act applies to these employers.

### **3.7 Adjustment of premiums (including wage audit)**

( Also refer to section 4.8 for further information on the adjustment of premiums)

#### ***Extra Premiums***

All extra premiums derived through actual wages being supplied, and wage audits are to have a payment due date 1 calendar month after the issue date of the adjustment Form PG/PH.

#### ***Return Premiums***

Should the actual wages provided or a wage audit result in a return premium, and there is a net credit balance owing to the insured, the credit balance is to be paid at the earliest possible date, but not later than 1 calendar month after the close of the month during which the credit transaction was processed.

If there are other outstanding amounts then the credit is to be offset against those amounts in the following order ;

- Claims excess
- Another overdue amount of premium and late payment fee starting with the oldest debt first
- Any third party legal costs to be recovered (including any previously written off costs )
- Any debts previously written off or waived
- A future charge within 2 calendar months of the close of the month during which the credit transaction arose.

#### ***Premium Discount Scheme***

Any net return premium arising out of an adjustment made as part of the premium discount scheme is to be allocated in accordance with other return premiums, above.

Once this allocation has been completed, only then can the net credit balance be refunded.

### **3.8 Disputation Procedures**

On no account is an employer to be referred directly to the WorkCover Authority as a result of a dispute against the application of procedures contained in this manual. In the first instance the Insurers should act in accordance with their own internal

complaint and/ or dispute resolution procedures. Only if this procedure fails to resolve the dispute should the matter be referred to WorkCover for further consideration.

### **3.9 Payment of Premiums by use of credit card facilities**

Merchant fees/charges incurred by insurers, who provide premium payment by credit cards facilities, are to be borne by the insurer and are **not** to be charged/debited to the Statutory Fund.

### **3.10 Premium Funding**

Refer to Insurer guideline 97/38

#### *Assignment of Premium Refunds*

The Authority has received legal opinion, which clearly sets out that the right to a refund of premium can be legally assigned by an insured employer, subject to the written consent of the insurer. The Authority would expect that if any premium refunds are directed to a premium funder or any other interested party, that all due care and attention is to be taken by the insurer in effecting this transaction.

#### *Assignment of Claims Payments*

The Authority has received legal opinion which clearly states that the right to claims payments cannot be legally assigned by an insured employer. If an assignment to a premium funder contains any element of a claims payments assignment then that assignment cannot be signed or acknowledged by the insurer.

#### *Liquidations*

Where a liquidator is involved, all monies whether a refund of premium or reimbursement of claims payments (for amounts previously paid to workers), must be refunded to the liquidator and not the premium funder as any refund must be available for distribution to all creditors. Whilst a premium funder may regard itself as a secured creditor, it is up to the liquidator to determine if preferential payment is applicable.

### **3.11 Renewal Premium calculated by multiplying the monetary value of wages for the immediately preceding equivalent period of insurance by 1.2**

#### **ie. Automatic Premium Calculation**

##### *Automatic Renewal subsequently found to be unnecessary*

Where a premium has been renewed by multiplying the monetary value of wages for the immediately preceding equivalent period of insurance by 1.2 and the policy is subsequently found to be unnecessary, as the employer has ceased business on or prior to the renewal date, the policy is to be cancelled from commencement date of policy and the premium should be reversed, not written off. Any costs incurred before notification of an "unnecessary" automatic renewal are to be charged to the statutory fund. Insurer Guideline 00/34

##### *Dual insurance as a result of an automatic renewal process*

Where an employer has not given the required notice to the holding insurer and cover has been arranged with another insurer, the holding insurer's policy is automatically renewed resulting in dual insurance. The following procedures are to apply:-

- The holding insurer is to issue the Form PG/PH and the Premium Demand.
- The "new" insurer is to cancel the policy reverse the premium and refund any premium paid with advice to the employer as to the reason for cancellation. The new insurer may forward the premium refund directly to the first insurer if the employer agrees.
- Should no payment be forthcoming from the "new insurer" following the above process, and the employer fails to pay to the holding insurer the renewal premium based on an automatic premium calculation, the holding insurer is to commence normal collection procedures.
- If the employer has paid the premium to the new insurer by the due date, and the new insurer subsequently pays the premium to the holding insurer, the employer retains any entitlement to statutory instalments.
- If the employer has paid a premium to the new insurer but not to the holding insurer, then the holding insurer cannot write off any debt recovery costs that have been incurred. The employer remains responsible for these costs.
- Details of any such cancelled policies are to be retained by the insurer.

### ***Requests for Cancellation of Policies Automatically Renewed***

Policies that have been automatically renewed in accordance with policy condition No. 17 will remain in force until the expiry date and cannot be cancelled from the commencement date of the current period of insurance except as set out below.

WorkCover Authority will consider a request from an insurer to approve cancellation of the first insurers policy only if:

- a) the employer took out a replacement policy of insurance with another insurer before the first policy expired,
- b) the new replacement policy has a commencement date equal to the expiry date of the first policy, and
- c) the employer can demonstrate that the first insurer did not inform the employer of the requirements of the automatic renewal policy condition no. 17.

WorkCover will not approve cancellation of automatically renewed policies to assist debt recovery or for similar reasons.

### ***Cancellation of Policies by Agreement between Insurers***

In cases of dual insurance as described above, WorkCover will agree to a first insurer cancelling their policy from the commencement date of the current insurance period, provided that both insurers agree. In this situation, the arrangements for payment and transfer of premiums set out in 3.11 apply.

## **3.12 Informal arrangements with debtors**

Insurers have **no** discretion to accept payment for less than 100% of a debt, except:-

- payment being for a final dividend distributed to creditors following the appointment of a liquidator or trustee in bankruptcy or a court-approved scheme of arrangement, or
- on receipt of the Authority's written approval.

***Note: a debt includes, overdue premium, late payment fee, claims excess third party legal costs and bank charges for Dishonoured cheques.***

## SECTION 4

### LATE PAYMENT FEE ON OVERDUE PREMIUMS

#### 4.1 Late Payment Fee

Section 172 of the Act, recovery of unpaid premiums, sets out the rules for charging a late payment fee on unpaid and overdue premiums. It should be noted that a late payment fee **cannot** be charged unless a Form PG/PH and where applicable a Demand for Premium has been issued and the relevant payment has not been received by the specified payment due date.

#### *Overdue premium*

A premium becomes overdue when the relevant payment amount has not been received in the Licensed NSW Workers Compensation insurers office, by the payment due date. Payment due dates are more fully explained in Section 3.

#### *Late Payment Fee*

The rate of the late payment fee is set out in Section 172 (1) of the Workers Compensation Act 1987 and currently is 1.2% per month compounded monthly.

#### 4.2 When is the late payment fee charged and on what amount?

A late payment fee is to be charged at month end, ie. the last day of the calendar month, on the overdue balance of an employers account, which includes premium and/or late payment fee previously charged.

It is the **insurers** responsibility to ensure that the **correct amount of late payment fee is charged and debited** monthly to the employer's account and that the employer is advised of the late payment fee amount.

The late payment fee is to be reflected in the insurers debtors ledger and included in the aged list of debtors balances at month end.

#### 4.3 Calculation of late payment fee (refer example on page 26)

Late payment fee is to be calculated at the rate of 1.2% per month compounded monthly (Sec 172 (1)).

- Days of grace are not to be taken into account when calculating late payment fee.

- Premium which has a payment due date exactly at the calendar month end date is not to be treated as being overdue as at that date.
- Late payment fee is to be charged at each month end and to be calculated on the individual employers overdue premium and late payment fee balance as at each **calendar** month end.
- All late payment fees are to be charged through the debtors ledger and aged according to the instructions contained in the Accounting Manual.
- For practical purposes late payment fee may only be calculated on those accounts which have a total overdue balance, premium plus late payment fee, in excess of \$20 (or any other lesser amount set for the marry tolerance in your computer system) at the relevant month end date.

#### **4.4 Where premium paid by statutory instalments**

##### **Deposit Premium**

Late payment fee is not applicable as this represents the employer's election to pay the Estimated premium by instalments.

##### **Non Payment of Statutory instalment 1 (inception date plus 4 calendar months)**

Both statutory instalments 1 & 2 become "now due and payable" as statutory instalment rights have been forfeited by the non payment of statutory instalment 1.

If the Demand for Premium has been issued, a late payment fee is to be charged **from** the statutory instalment 1 payment due date

**or**

1 calendar month after the issue date of the Demand for Premium, whichever is the later.

The late payment fee is to be charged, as calculated in accordance with clause 4.3 above, on the full amount of the overdue premium unpaid for statutory instalments 1 & 2

##### **Non Payment of Statutory instalment 2 (inception date plus 8 calendar months)**

If the Demand for Premium has been issued, a late payment fee is to be charged **from** the statutory instalment 2 payment due date

**Or**

1 calendar month after the issue date of the Demand for Premium, whichever is the later.

The late payment fee is to be charged, as calculated in accordance with clause 4.3 above, on the amount of the overdue premium for statutory instalment 3.

#### **4.5 Where premium is not paid by statutory instalments**

A late payment fee is to be charged, as calculated in accordance with clause 4.3 above, on the overdue premium amount.

#### **4.6 Applications under Section 170**

If an employer has lodged an appeal application under Section 170, the late payment fee is to continue to be charged on overdue premium amounts for the relevant policy period, provided the relevant Form PG/PH and Demand for Premium have been issued (Sec 172 (4)).

The calculation and debiting of the late payment fee is only to cease as from the date a third party action reaches the enforcement stage i.e. issue of a Sec 459E notice (the commencement of bankruptcy or liquidation proceedings or the like). The external third party or in house litigation area is to inform the licensed insurer of the date any such action is taken.

#### ***Reduction in premium- premium not paid***

Should an application under Section 170 result in a reduction in premiums, the late payment fee is to be charged on the new balance from the date of the original debt. A new PG/PH form is to be issued along with a new demand for premium allowing one calendar month for the debt to be paid.

All litigation costs incurred must be recovered. The above does not affect recovery of all litigation costs. Any overpayment of late payment fees or legal cost do not form part of any refund to the employer once paid.

Below are examples to illustrate this process

#### **Example 1: Section 170 determination made 31/12/00, premium NOT paid**

30 June Renewal		
Estimated premium	\$	20 000 due 30/08/00

Premium has not been paid as at determination date. Therefore, as at the date of determination, 31/12/00, the debt due for payment is,

Estimated premium	\$	20 000
Late payment fee	\$	977
(\$20000x1.2% @ 4 months 30/08/00 – 31/12/00 )		

<b>TOTAL DEBT</b>	<b>\$</b>	<b>20 779 plus legal costs incurred</b>
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**Following the determination, the correct debt payable will be,**

	Correct Premium	\$	15 000	
	Correct Late payment fee	\$	733	
	(\$15000x1.2% @ 4 months			
3	0/08/00 – 31/12/00)		<hr/>	
	New DEBT PAYABLE	\$	15 733	plus legal costs. Employer will have 1 month to pay the new amount determined.

EXAMPLE 2 : section 170 determination made 31/12/00, premium has been Part paid.

30 June Renewal				
	Estimated premium	\$	20 000	due 30/08/00
	Plus late payment fee	\$	240	@ 30/09/00
	Plus late payment fee	\$	242	@ 30/10/00
	LESS payment	\$	10 000	paid 15/11/00
		\$	10 482	
	plus late payment fee	\$	125	@ 30/11/00
	plus late payment fee	\$	127	@ 31/12/00
	As at 31/12/00 total debt	\$	10 735	plus legal costs incurred

Following the determination, the correct debt payable will be,

	Correct premium	\$	10 000	
	Correct late payment fee	\$	241	@ date paid \$10000
	Less payment made	\$	10 000	
	<b>New Debt Payable</b>	\$	<b>241.00</b>	<b>plus legal costs incurred</b>

***Reduction in premium – premium paid in full***

The Workers Compensation Legislation Amendment Act 2000 No.87 now provides that where:

- the insurer redetermines a premium following the Authority's determination, and,
- the employer has already paid to the insurer the premium to which the application relates,

The employer may recover from the insurer, as a debt due to the employer, the premium overpaid as redetermined, together with interest on the amount of premium overpaid, at the rate of 1.2% per month compounded monthly, from the date the incorrect premium was originally paid.

Below find examples to illustrate this process of recovery.

### **Example 1 : Category B employer**

Period of insurance	30/06/2000 – 30/06/2001		
Renewal Premium	\$2000	due	30/08/00
		<b>Paid</b>	<b>02/09/00</b>
Re -Determination made	30/12/00		

In this scenario, the overpayment amount is

Correct premium	\$	1500
Less Incorrect premium	\$	<u>(2000)</u>
<b>Over payment</b>	<b>\$</b>	<b>500.00</b>

**Plus Interest to employer** \$ **24.43**  
(\$500 x 1.2% @ 4 mths  
02/09/00 to 30/12/00 )

**TOTAL CREDIT** \$ 524.43

### **Example 2 : Category A Employer**

#### **Period of Insurance 30/06/2000 to 20001**

Estimated premium Last year	\$	15600
Estimated premium 2000/2001	\$	21900

**Deposit premium** \$**5200** due 31/07/00  
(1/3 x \$15600 ) **Paid 31/07/00**

**Statutory Instalment 1** \$**9400** due 31/10/00  
(2/3 x \$21 900 – deposit) **Paid 31/10/00**

**Statutory Instalment 2** \$**7300** due 28/02/01  
(1/3 x \$21900) **paid 28/02/01**

#### ***SCENARIO 1: Section 170 Re-determination made 30/09/00 i.e. After payment of Deposit premium***

Correct Premium	\$	12000	
Return Premium	\$	9900	(\$21900 - \$12000)

In this scenario, there is no actual overpayment, as only \$5200 has been paid. The return premium of \$9900 is to be proportionately allocated to instalments 1 and 2, to reflect the correct instalment amounts for the new \$12000 premium.

**SCENARIO 2 : Section 170 Re-determination made 30/11/00. i.e., after payment of Instalment 1**

Correct Premium	\$	12000	
Return Premium	\$	9900	(\$21900 - \$12000)

At time of Re-determination Employer has paid (deposit + instalment 1) \$14600

**In this scenario, the overpayment is \$ 2600**  
Correct premium \$12000  
Less premiums paid \$14600

**Interest to employer \$ 31.20**  
(2600x1.2% @ 1 mth  
31/10/00 to 30/11/00)

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**TOTAL CREDIT \$2631.20**

This credit is to be allocated firstly to any other premiums, in accordance with section 3.7 of this manual, and then paid to the Employer.

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**SCENARIO 3 : Section 170 Re-determination made 30/05/01. I.e., after payment of Instalment 2**

Correct premium	\$	16000	
Return premium	\$	5900	(\$21900 - \$16000)

At time of re-determination, Employer has paid (deposit + Instalment 1 & 2) \$21 900

In this scenario, the overpayment does not actually happen until the 2<sup>nd</sup> instalment has been paid.

**overpayment \$ 5900**  
Correct premium \$ 16000  
Less Premiums paid \$ 21900

**Interest to employer \$ 214.96**  
(5900x1.2% @ 3 mths  
28/02/01 to 30/05/01)

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**TOTAL CREDIT \$6114.96**

**SCENARIO 4 : Section 170 re-determination made 30/05/01.ie, after payment of Instalment 2.**

Correct premium	\$	14000	
Return premium	\$	7900	(\$21900 – 14000)

At the time of re-determination, Employer has paid \$21900  
(deposit + instalment 1 & 2)

<b>Total overpayment</b>	<b>\$ 7900</b>
Correct premium	\$14000
<b>Less Premiums paid</b>	<b>\$ 21900</b>

In this scenario, the overpayment begins at the time of the 1<sup>st</sup> instalment payment, so that at this point,

Employer has paid	\$	14600	(deposit + instalment 1)
Less Correct premium	\$	14000	

@28/02/01	<b>Overpayment</b>	<b>\$ 600</b>
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therefore <b>interest to Employer</b>	<b>\$ 317.15</b>
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(\$600x1.2% from 31/10/00-28/02/01)

+ (7900x1.2% from 28/02/01-30/05/01)

<b>TOTAL CREDIT</b>	<b>\$ 8217.15</b>	<b>(\$7900+317.15)</b>
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**SCENARIO 5 : Section 170 Re-determination made 30/05/01.ie, after payment of Instalment 2.**

Correct premium	\$	14700	
Return Premium	\$	7200	(\$21900 - \$14700)

At the time of re-determination, Employer has paid \$21900  
(deposit + Instalment 1&2)

In this scenario, the overpayment does not actually happen until the 2<sup>nd</sup> instalment has been paid. That is, after the payment of instalment 1 the employer has paid only,

\$ 14600 (deposit + instalment 1)

As the correct premium is \$14700, there has been no overpayment as at 31/10/00. The overpayment occurs when the 2<sup>nd</sup> instalment has been paid, on 28/02/01

<b>Therefore overpayment is</b>	<b>\$ 7200</b>
Correct premium	\$ 14700
Less premiums paid	\$ 21900

<b>Interest to Employer</b>	\$	<b>262.32</b>
(\$7200x1.2% @ 3 mths 28/02/01-30/05/01 )		

<b>TOTAL CREDIT</b>	\$	<b>7462.32</b>
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**Further examples on the treatment of adjustments to premiums will follow shortly.**

#### **4.7 Employers in liquidation/bankruptcy**

Calculation of **the** late payment fee is to cease as from the date the employer was placed into liquidation or bankruptcy. As a result of the court **interest rate** applying after judgement, there will be a slight adjustment to be made to the **late** payment fee component of the debt.

#### **4.8 Adjustment of premiums**

##### *Revised (recalculated) Premium*

An estimated or actual premium may need to be recalculated where an **error** has been made. These errors include, the insurer making a clerical error in processing the premium (such as typing the wrong amount of wages), or the employer making an error in the amount of wages declared (clerical error in amount declared, or including wages that should not be included).

##### Additional Premiums

Where a premium is recalculated, the following due dates are to apply,

- (i) Where the additional premium is processed as an additional and separate amount to the original premium calculation, the due date of the additional premium is one calendar month from issuing the premium calculation. This is in accordance with section 3.7.
- (ii) Where the original premium is reversed in order to process the revised figures, the due date of the new premium calculation **must** be the same as for the original premium.

A late payment fee is to be charged, as calculated in accordance with clause 4.3 above.

Where the estimated premium is being paid by statutory instalments, the additional premium arising from a recalculation to the estimated premium, is to be allocated proportionately to each instalment so that the amount of each instalment is in accordance with section 3.4 calculation of each statutory instalment.

### Reduction in premiums

Where a premium is recalculated and the reduction in premium is processed as an additional and separate amount to the original premium calculation and the employer has other overdue premiums on which a late payment fee is being charged, the reduction in premium is to be credited in the following order to determine the amount of the debt on which a late payment fee is to be charged.

- i) against any claims excesses outstanding
- ii) against another overdue premium and late payment fees (starting with the oldest debt),
- iii) Bank charges from dishonour cheques,

The late payment fees are **recalculated** from the due date of the original premium. Any late payment fees already charged are not waived, the late payment fees are adjusted to equal the correct amount of late payment fee as recalculated.

Where a **return premium** has been processed in accordance with insurer guideline 95/39 for the current period of insurance, and

- ü premium for this period of insurance remains unpaid
- ü and late payment fees have been charged,

the return premium is credited to the original estimated premium. Late payment fees continue to be calculated on the reduced premium amount. Late payment fees previously charged form part of the new debt amount. The due date of the premium remains the same.

Where the estimated premium is being paid by statutory instalments, the reduction in premium arising from a recalculation to the estimated premium, is to be allocated proportionately to each instalment so that the amount of each instalment is in accordance with section 3.4 calculation of each statutory instalment.

Alternatively, where the original premium is reversed in order to process the revised figures resulting in a lesser premium, the due date of the new premium calculation **must** be the same as for the original premium.

## **4.9 Waiver of Late Payment fee**

Late payment fee may be waived under Section 172 (2) only with the approval of the Authority.

The Authority grants approval to insurers to waive the payment of late payment fee payable by employers as follows:-

Should the premium payment be received within 7 consecutive calendar days (days of grace) of the payment due date, late payment fee can be waived irrespective of the amount.

***Waiver of late payment fee on Audit Premiums***

The same principles apply as per below for other late payment fees charged. Also refer to Insurer guideline 2001/10.

***Approval for waiver of late payment fee less than \$300***

Insurers may waive the payment of an amount of late payment fee to the total of \$300 for all policy periods, for any one employer during the **current policy period** provided that:-

- the total amount of late payment fee in **aggregate** is \$300 or less, **and**
- an invoice/account detailing premium and associated late payment fee has been issued to the employer, **and**
- the related premiums have been paid by the employer and there are reasonable grounds for the late payment fee amount to be waived.

Insurers are not permitted to waive any amount of late payment fee where the aggregate amount calculated for all policy periods, during the current policy period, **exceeds \$300**.

***Approval for waiver of late payment fee greater than \$300***

Requests for the waiver of late payment fee under Sec. 172 (2) for amounts in excess of \$300 are to be made in writing to the Authority, by the **employer**, (not the insurer), setting out full details and reasons for the request.

All correspondence in respect to waiver of late payment fee is to be addressed to:-

The Manager  
Insurer Performance Evaluation & Appeals Branch  
WorkCover New South Wales  
DX 480 SYDNEY

***Records to be maintained***

The insurer is to retain details of the amounts of late payment fee adjusted **waived** and reversed, as this will be an area covered in the Insurer Performance Evaluation & Appeals Branch field audits. The format of the details to be retained is up to each **licensed** insurer, but will be sufficient to enable identification of the insured and the

amount of late payment fee adjusted **waived**. The records should be able to be produced within a reasonable time following a request from the Authority.

The Authority will closely monitor and review the waiving, reversal and adjusting of all late payment fee amounts.

<b>EXAMPLE OF CALCULATION OF LATE PAYMENT FEE (LPF)</b>
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**NOTE:-** Late payment fee is to be calculated to the cent and NOT rounded off. Cents have NOT been shown in the example below for ease of presentation only.

TRANS DATE	PAYMENT DUE DATE	\$	\$
June closing balance			1,000
08-7-2000	08-8-2000 Premium debit	500	
27-7-2000	Receipt (June bal)	<u>(400)</u>	
			1,100
31-7-2000	Late payment fee $((1,000-400)=600) \times 1.2\%$		<u>7</u>
	Balance	<b>31-7-2000</b>	1,107
06-8-2000	Receipt (Bal of June)		<u>600</u>
			507
31-8-2000	fee $(507 \times 1.2\%)$ (July debit + July fee)		<u>6</u>
	Balance	<b>31-8-2000</b>	513
20-9-2000	20-10-2000 Debit	700	
28-9-2000	Receipt	<u>(500)</u>	
			<u>200</u>
			713
30-9-2000	Fee $(13 \times 1.2\%)$ (July & Aug LPF)		<u>1</u>
	Balance	<b>30-9-2000</b>	714
25-10-2000	Receipt		<u>700</u>
			14
31-10-2000	Fee $(14 \times 1.2\%)$ (July, Aug & Sep LPF)		<u>1</u>
	<b>Balance</b>	<b>30-10-2000</b>	<u>15</u>

## SECTION 5

### COLLECTION OF OVERDUE PREMIUMS COVERING IN-HOUSE AND THIRD PARTY RECOVERY ACTIONS

Recovery action cannot commence unless the relevant Form PG/ PH and Demand for Premium have been issued to the employer.

The amounts referred to in this section are for premium and late payment fee charged (debited) in total.

#### 5.1 Applications under Section 170

Section 172 (4) states that the making of an application under Sec. 170 does not affect the entitlement of an insurer to take recovery action under Sec. 172.

Payment of an amount of premium which is subject to an application under Sec. 170 may be deferred in a particular case by the Authority under Sec. 172 (4)(a) upon application to the Insurer Performance Evaluation & Appeals Branch.

The insurer is to ensure that the employer is fully aware that an application under Sec. 170 does not affect the insurer's requirement to take recovery action or to charge a late payment fee.

Where the Authority has deferred payment, the late payment fee will cease to accrue on the deferred amount as from the date of the Authority's advice. The charging of late payment fee will recommence one calendar month after the date of the determination of the application as prescribed in Section 4.2.

If the determination results in a change of premium, the late payment fee is charged one calendar month after the issue date of the revised Form PG/PH and if necessary a new Demand for Premium.(in accordance with section 4.6)

#### 5.2 In-house collection procedures

The timely and efficient collection of premiums is a significant factor in the successful and effective operation of the whole WorkCover Scheme.

To be timely and efficient as well as effective the collection process must start well before a premium becomes overdue.

The following procedures are applicable to both statutory instalment and non statutory instalment employers and are the **minimum** requirement.

### **5.3 Actions prior to payment due date**

A reminder notification must be sent prior to the premium due date notifying the employer the date payment is required.

For Category A employers, the reminder should specify that late payment will result in a forfeit of instalment option.(i.e., instalment 1& 2 will become due immediately)

### **5.4 Extended payment arrangements**

Extended payment arrangements with an employer may be negotiated, provided such arrangements are realistic and the overdue amount will be fully paid, where practical, before the date of the next renewal.

The amount of the debt covered by an extended payment arrangement is to include the premium amount, late payment fee, claims excess (if appropriate) and any third party costs incurred.

Should the employer default in making payments under any such arrangement, contact is to be made with the debtor in an endeavour to obtain payment as agreed. If this is unsuccessful legal action must be commenced to recover the amounts still overdue without further notice

### **5.5 Dishonoured cheques**

Where an employer's cheque for payment of a premium or *late payment fee* debt is dishonoured the cheque amount is to be raised as a debit in the debtors ledger. Late payment fee on debts which arise from a dishonoured cheque is to be calculated from the due date of the original debt and not from the date of dishonour.

On receipt of advice that a cheque has been dishonoured, the employer/drawer is to be immediately contacted and suitable arrangements made for a replacement cheque.

Should payment of the overdue amount not be received, appropriate recovery action is to be commenced without further notice to the employer.

Bank charges in respect to the dishonour are to be recovered as part of the debt. Where they cannot be recovered they are to be included with other bank charges on line 22, Form 1.2 of the accounting reports. This will be reviewed and monitored by the Authority.

## 5.6 Actions after payment due date

The insurer is to make reasonable commercial enquires to ascertain if the employer is actually at the address shown on the notices and/or whether the business is still operating. **Enquiries should be made if mail is returned to the sender.**

The insurer is to document all actions taken, including the reasons for the action and any contact with the employer and/or agents.

It is the Insurers responsibility to ensure that the employers details are current and up to date.

A FIRST overdue communication must be issued after payment due date. The first communication can be in writing or verbal. If verbal, the debtor must have been contacted. Leaving a message to be passed on is not contact. The insurer must document all verbal communication. The written communication will advise the employer that:-

- premium is overdue
- a late payment fee is being charged
- payment is expected within 7 days
- Further recovery action will be taken, including litigation action at the employers costs

### LITIGATED RECOVERY ACTION

#### **REFERRALS - What is to be referred for litigation action?**

Litigated recovery action can be undertaken either through an external third party or using insurers own in house procedures

#### *Referral dates*

- ü Where litigated recovery action is undertaken by an external third party, the referral date is the date the debt is referred for action by the third party.
- ü Where litigated recovery action is undertaken by insurers in house activity, the referral date is the date that initial litigation action is commenced. (Eg date Statement of liquidated claim issued) Therefore on Form 7.2.1, there will be NIL debts referred. Any third party costs however will still need to be reported Refer to Section 5.9 Third Party Costs

## Old Debts

Debts to be referred include those premiums that were previously written off as irrecoverable, and late payment fees that had been waived.

**Insurers must ensure that these previously written off or waived debts are identified and that the late payment fee is re-calculated from date of the original debt being due, and included when referring current debts for litigated recovery action.**

### All amounts for more than \$100

WorkCover expects that attempts are made to recovery all debts.

All overdue amounts for more than \$100 **must** be referred to litigation for the issue of a first and final demand letter.

For amounts more than \$300, appropriate litigation procedures are to commence.

WorkCover recognises at times it may not be practical to refer matters up to \$300 for litigation. Some of the exceptions may be where the insured has ceased trading or is insolvent or bankrupt. However in those cases where an amount less than \$300 is not litigated the insurer is to continue to pursue the debt.

## 5.7 Third parties (external)

A third party for the purpose of recovery actions refers to either licensed commercial agents or a qualified solicitor with a practising certificate allowing them to practise in the New South Wales State courts or the Federal Court.

It is at the Insurers discretion which debts are to be recovered by a Commercial Agent or Solicitor taking into consideration the best method for recovery of the debt (premium, late payment fee, claims excess, legal costs)

### *Information to be provided to third party*

The insurer, when passing a debt to a third party for collection, must provide as much information as possible to assist in the location of the employer. This information must include, as a **minimum**, the following items:-

- name, address and phone number of the employer, including A.C.N. or A.R.B.N if applicable
- full business (trading) name, address and phone number of the employer  
last known postal address of employer

- details of the premium debt and any late payment fee charged to date, any claims excesses overdue, along with those debts identified as being previously written off or waived, including the updated late payment fee charge.
- details of any special or specific instruction to the third party for actions to be taken
- any other information which may assist a third party in locating the employer for recovery action.

### ***Calculation of Late Payment Fee***

The third party is to inform the insurer when the employer was placed into liquidation, bankruptcy etc so that calculation of late payment fee can cease on the appropriate date. (See Section 4.6)

### ***Extended payment arrangements***

If the employer contacts the insurer regarding payment of the debt, after it has been referred for litigation action, the insurer is to use its commercial judgement whether to take further recovery action or to enter into a payment arrangement/agreement.

An Insurer can only withdraw action from litigation to allow an extended payment arrangement if;

1. No legal action has commenced or,
2. If legal action has commenced, Judgement must be obtained first, and the cost of the judgement is to be added into and recovered as part of the payment arrangement, and
3. Provided such arrangements are realistic and, the overdue amount (premium, late payment fee, debt recovery costs and where appropriate claims excesses) will be fully paid, where practical, before the date of the next renewal.

All such arrangements are to be in writing and signed by the insurer.

Should the employer **default** in making payments under any such arrangement, contact is to be made with the employer to resolve the problem. If the problem cannot be solved then the third party is to immediately commence action to recover the amounts still overdue to the full legal conclusion.

### **Bankruptcy and winding up actions**

When the normal means of collection has not resulted in the payment of the debt, **bankruptcy** or **winding up** actions must commence without further notice, for the minimum amount of debt as required to commence such proceedings.

These actions are to be taken after appropriate enquiries have been made with the ASC to establish the correct legal entity.

### ***Mortgagee in possession/Receivers & Managers:-***

Full recovery actions are to be taken in respect of any overdue debts even though a mortgagee in possession, or receiver has been appointed.

### ***Garnishee***

WorkCover considers that in the appropriate circumstances a garnishee order is an appropriate method of debt recovery action.

## **5.8 Responsibilities of external Third Parties**

### ***Accountability***

Third parties appointed by the insurer are accountable to the insurer in relation to their performance. Third parties engaged in recovery of premiums must liaise and report regularly to the insurer, in order that the Authority may be kept informed of the progress of recovery actions undertaken, in accordance with Form 7 reporting requirements.

The report is to include information relating to each fund year as follows;

- Date debt referred
- Dates of payments made
- Legal action taken
- Costs incurred
- Debt balance outstanding
- Late payment fees charged
- Rate of recovery
- Cost of recovery,

### ***Access to information***

The Authority reserves the right to have access to third party reports and related documents and to obtain any relevant information or documents direct from the third party. Third parties are to be instructed accordingly.

### ***Trust Accounts***

All external third parties shall maintain a separate Workers Compensation Statutory Fund Trust Account into which all premium debt recoveries, and associated recoveries (eg costs awarded), will be deposited.

### ***Remitting of recoveries to insurers***

All premium debts recovered by external third parties should be remitted to the insurer by no later than the end of the month in which they are recovered and, in sufficient time to allow for processing by the insurer so that the correct amount of *late payment fee* will be charged. It is the insurer's responsibility to ensure that any debts recovered are remitted within the above time frames.

### ***Third Party Costs***

Any costs debited to the statutory fund for the recovery of unpaid premiums and late payment fees are third party costs.

Third party costs include;

- Litigation costs incurred by either an external third party or insurers own in house litigation action. Litigation costs include court costs and filing fees associated with issuing legal documents for the recovery of unpaid premiums and late payment fees.
- Payments to external third parties for their services in addition to litigated costs.
- Disbursements such as ASC searches and photocopying, etc.

Third party costs form part of the debt and must be recovered from the employer. The Authority does not authorise insurers or their Third Parties to waive costs incurred where an employer can be pursued. Where recovery is not pursued by the insurer any such costs are to be borne by the insurer.

## **5.9 Allocation of payments**

When a payment is received in respect of an overdue premium on which a late payment fee has been charged, the payment is to be allocated firstly to:-

- An overdue claims excess (if applicable)
- premium amount
- late payment fee charged and debited to the employer
- bank charges for dishonoured cheques.
- Third party legal costs

## SECTION 6

### CLAIM EXCESS

#### *Claim Excess Recovery*

Insurers are responsible for the collection of claims excesses from employers.

Where an employer has overdue claims excesses the insurer must institute collection procedures in line with those applicable for outstanding premiums. Excess amounts not recovered within one calendar month of being debited are to be treated as overdue. (Note S172 late payment fee does **NOT** apply to overdue claims excess).

#### **6.1 Claims excess offset**

##### *Offset agreement*

Insurers are required to enter into an offset agreement with each Category A employer, and Category B employer who elects to pay the claims excess, which will allow the insurer the right to offset the excess against amounts to be reimbursed to the employer for compensation paid to the worker by the employer. This is to apply in all possible cases.

Insurers are expected to apply the offset provisions in all possible cases. This is especially the case for larger employers. Insurers are expected to ensure an offset arrangement is in place for all major clients.

##### *Offsetting procedures*

Insurers are reminded that claims excesses are also to be offset against any premium credit or refund due to the employer concerned. The amount offset is **NOT** to exceed the amount of premium credit or refund and therefore place the employer's premium account in debit. In general the following procedures will apply:

- Insurer receives claim for and makes a determination of liability.
- Insurer advises employer of determination and where liability is accepted advises the employer that they may pay the worker for the time lost. In practice employers may well have continued to pay the worker as a matter of course.
- Insurer processes the claim and issues payment to the employer reimbursing the employer for payments made to the worker less \$500 (or where the payment is less than \$500, that amount).

- Insurers are obliged to verify that the employer has paid the worker prior to reimbursing the employer. The verification that occurs under the existing procedures outlined above is believed to be sufficient for this purpose.

Exceptions will occur where for whatever reason the employer does not make payments to the worker. This may occur for a variety of reasons, for example the worker is no longer employed by that employer, the employer is no longer operating, the employer believes the claim is not a valid one or the lodgement of claim was delayed. In these circumstances the insurer should make payment direct to the worker and recover the excess from the employer as with existing arrangements.

It is possible that an employer may make part payment to an injured worker. Insurers should offset the excess against any reimbursement to the employer and should any excess remain outstanding this should be recovered in the normal way.

If the excess is not offset, a debt should be raised against the employer. This debt should be raised at the point the payment is made to the worker and should be invoiced to the employer, due within 30 days.

For accounting purposes an excess recovery should be shown in all cases as a payment and a recovery. Where an offset occurs, both these transactions may be raised together. For example, if a worker is paid \$600 in weekly benefits by the employer on behalf of the insurer, the insurer should show payments of \$600, a recovery of \$500 and reimburse the net amount of \$100 to the employer.

Please note insurers are not legally entitled to offset excess debts against any claim other than the claim to which the excess relates. That is, if an excess is generated by claim A insurers cannot offset that against payments made on claim B. Similarly insurers can only offset against the employer in question and not, for example, against related companies within a group.

The legislation also provides that an insurer may offset claims excess debits against any return premium credit on the policy. If at the time a premium credit is raised (as a result of an adjustment calculation or some other reason), the employer has outstanding excess debts, the excess debts are to be offset against the premium credit. In general if the insurer is offsetting against claim payments it should not be necessary to use this facility.

Where the insurer raises a return premium credit, the insurer should offset this credit against any claims excess debits prior to reducing any existing overdue premium. Priority should be given to clearing excess debits. Insurers should not accede to an employers request for payment of return premium credits if excess debits exist. Insurers should also not accept an employers request for payment of return premium credits to an associated company or entity within a group unless they have a written request from the company or entity with the credit position.

When an insurer offsets excess payments they should provide the employer with a statement that indicates:

- The gross payment due to the employer either for the reimbursement of compensation amounts or premium credit. In the case of premium credits the correct premium calculation forms (Form PG/PH) should also be issued.
- The excess amounts due to be recovered.
- The net amount due to the employer in reimbursement of compensation or return premium. The net amount due will often be nil.

These statements should be issued in all cases including where the net amount due is nil but may be issued as part of the normal monthly statement.

## 6.2 Litigation recovery action

All excess recoveries over \$100 are to be referred for litigation action in line with the collection procedures of overdue premiums.

This includes any claims excess amounts that may have been previously written off as irrecoverable.

Such excess recoveries are to be referred where possible, in conjunction with and as part of a recovery action for collection of overdue premiums.

Where there is a recovery as a result of third party action and a premium debt was part of the action, the amount recovered is to be allocated as follows unless there is a specific allocation requested by the debtor:-

- to claim excess
- to premium debtors ledger

Third party costs are to be recovered from the employer in the same manner as for premium debts.

The associated third party costs (net of recoveries) are to be charged to Statutory Funds in accordance to Section 8 - Recovery Cost Table - of the Premium and Debt Collection Manual.

### *Write off of claims excess*

Insurers are authorised to treat the writing off of overdue and irrecoverable excess recoveries in the same manner as irrecoverable premiums.

This means that when collection procedures have been exhausted, insurers can, without reference to the WorkCover write off an irrecoverable overdue claim excess amount up to **\$300** per claim **PROVIDED that the total excess amount debited for that claim did not exceed \$300.** Accordingly there can only be one (1) write off per claim.

Where the amount of a claim excess, which is considered irrecoverable is more than \$300 and the employer is still carrying on business, the insurer is to obtain approval from the WorkCover Authority before writing off the claim excess.

### ***Employers in Liquidation/ Bankruptcy***

Insurers are hereby authorised to write off claims excesses, without limit, the difference between the amount owed by the employer and the total of amounts received or estimated to be receivable, if any, in distributions by the liquidator, trustee in bankruptcy, or administrator.

Any distribution received is to be allocated in proportion of the claims excess and premium debt (with late payment fee) to the total amount owed by the employer.

### ***Reporting to the Authority***

All amounts written off for claims excesses are to be reported on Form 7.3 as a note below 7.3.2 (Provision for Bad and Doubtful Debts).

Details of all amounts written off are to be retained by the licensed insurer and will be subject to audit by the Operations Review Branch.

## SECTION 7

### BAD DEBTS - WRITING OFF AND SETTING PROVISIONS

#### *Writing off of bad debts*

Bad debts are to be written off to the provision for doubtful debts (if specific provision has been made) or to the statutory fund revenue account. **All** debtors' balances are to be reviewed **at least quarterly** for this purpose.

#### **7.1 Employers in Liquidation/Bankruptcy or Voluntary Administration**

##### *Setting the Provision*

##### *Bankruptcy/Liquidation*

The following procedure applies once it has been confirmed through, a company search, written advice from a liquidator or Trustee in Bankruptcy or written advice from the courts via the third party, that an Employer has been placed into liquidation or bankruptcy, and ceased trading, in order to determine the amount to be provided for.

- i) Cease calculating late payment fee as at the close of the month prior to the date on which the, liquidator or trustee in bankruptcy was appointed
- ii) Cancel ("Short term") the current policy year to the date of appointment of liquidator or trustee, on a pro rata basis using estimated wages and process a return premium adjustment which is to be credited against the employer's outstanding premium.

This will provide a premium for "time on risk" and this amount, plus late payment fee and any claims excess due, as well as any debts that were previously written off, should be the amount shown on any proof of debt form.

***Note: The late payment fee should be calculated on the full amount of the original premium debt, from payment due date to the date of appointment of the liquidator or trustee in bankruptcy.***

- iii) A Proof of Debt form is to be lodged with the Liquidator/Trustee, for the amount as determined in (ii), with a copy placed on file.

**Authorisation to write off**

***Note: The debt can only be written off once written advice is received from the liquidator, or Trustee in Bankruptcy, either directly or via Third Party, that no distribution will be made to unsecured creditors. Record of this advice must be kept on file.***

Insurers are hereby authorised to write off, without limit, the difference between the amount owed by the employer and the total of amounts received or estimated to be receivable, if any, in distributions by the liquidator or trustee in bankruptcy,

The debt is to be written off to the specific provision for bad debts (if any) or to the 'Bad Debts' expense in the revenue account.

**NOTE :**

(I) If the above is inapplicable, create a specific provision for doubtful debts for the amount calculated as per the Proof of Debt;

**DR.** Increase in Provision for Doubtful Debts (revenue a/c)  
**CR.** Provision for Doubtful Debts

(ii) If advice is received as to the likely amount of any distribution to unsecured creditors, adjust the level of the provision downwards to reflect only the amount **not** expected to be collected:-

**DR.** Provision for Doubtful Debts  
**CR.** Decrease in Provision for Doubtful Debts (Revenue A/C)

(iii) On receipt of any progress distribution, credit the amount to the debtor's account:-

**DR.** Cash Received  
**CR.** Accounts Receivable

Amounts received should be applied proportionately to claims excess and then the premium debt and any remaining balance against late payment fee.

(iv) On receipt of final distribution, credit the amount to the debtor's account as per (i) above. Then write off the balance of the account against the provision:-

**DR.** Provision for Doubtful Debts  
**CR.** Accounts Receivable

(v) Any credit balance remaining in the provision should be written back to the revenue account:-

**DR.** Provision for Doubtful Debts  
**CR.** Increase in Provision for Doubtful Debts (Revenue A/C)

## **Voluntary Administrations**

The following procedure applies once it has been confirmed through a company search, written advice from an Administrator or written advice from the courts, that an employer has been placed under Administration.

Where an Administrator has been appointed, there are two options available for the Administrator. The first is to keep the existing policy of insurance in force, and secondly, the Administrator may take out a new policy of insurance with the same or another workers compensation insurer.

### **1.Original policy remains in force, Administrator does not take out another policy.**

The Administrator requests that the existing workers compensation policy remains in place, noting that an Administrator has been appointed. When this happens, the entire premium (debt), including any future instalment amount as at the date the Administrator is appointed, is the amount that is to be proved in the Administration. Late payment fees cease to be charged from the date the Administrator has been appointed.

A proof of debt is lodged with the Administrator for the debt due, including any late payment fees, as at the date the administrator is appointed. The estimated premium (debt) **is not** pro rata adjusted. The entire (or any balance, if payments have been made) premium for the relevant period of insurance must be proved in the Administration. The policy records must be noted that an Administrator has been appointed.

Should the policy of insurance renew **during** the period that the company is under the control of the Administrator, then the Administrator is liable for the payment of the premium.

NO further action is to be taken by the existing insurer of the existing workers compensation policy until after the 2nd (or possibly subsequent) meeting of creditors has been held, where a decision will then be made on the future of the company. Once this has happened, the following action is the taken by the existing insurer;

- (i) **Wind Up** – where it is decided that a company is to be wound up or liquidated, follow the procedures in accordance with 7.1 above for liquidations.
- (ii) **Control returned to Company** – where the control of the company is returned to the directors, recovery of any unpaid premium is to be pursued against the company. Late payment fees are recalculated and charged for the period of the Administration. The outstanding premium and late payment fees continue to be pursued in the normal course until recovered. The reference of ‘administrator appointed’ is to be removed from the policy records.
- (iii) **Deed of Company Arrangement (DOCA)** - where it has been decided that a DOCA is to be put into place, the following procedures are to be followed;
  - a) A proof of debt is to be lodged with the Administrator in order to prove the debt in the DOCA. This debt becomes part of the Provision for Doubtful debts, as other liquidated or bankrupt matters.
  - b) The policy is to be noted that the company is ‘Subject to a Deed of Company Arrangement’.
  - c) At the end of the DOCA period, the distribution of funds as proved under the DOCA are to be allocated to the ‘debt’ as proved in the DOCA. Insurers are authorised to write off, without limit, the difference between the amount owed by the company and the total amounts received or estimated to be received, from the DOCA, as advised in writing by the Administrator. The reference of ‘Subject to a Deed of Company Arrangement’ on the new policy records must be removed.
  - d) Note, the policy cannot be cancelled simply because it is resolved by creditors that the company enter into a DOCA. The cancellation criteria as per Insurer Guideline 01/xx must be satisfied. This replaces IG 00/34.
  - e) Any new premium processed (renewal or extra premium) for the company after the Administration has ended is the responsibility of the company. Recovery action is taken against the company and not the Administrator. Late payment fees are charged only on any new debts that arise.

*Note, if the insurer believes that the DOCA unfairly prejudices the insurer or there are other aspects of the administration of DOCA, which warrant serious complaint, the Authority must be notified immediately.*

## 2. Administrator commences a policy with another Insurer

The Administrator requests that the existing policy is to be cancelled. The existing insurer **must** cancel the policy of insurance from the date the Administrator's new policy has been created. The insurer must have evidence from the Administrator that a new policy has been created before canceling the policy.

Actual wages are to be obtained and processed in order to determine the actual debt owing by the company. The initial proof of debt must be lodged for the entire estimated premium, any other premiums and late payment fees (debt) as at the date of the Administrator's appointment.

It is in the best interest of the insurer and the Administrator to provide actual wages for the relevant periods in order to determine the actual debt of the company, and thereby provide an accurate proof of debt. If the Administrator is unable to provide actual wages for the relevant period at the time the second proof of debt is to be lodged, then the policy is to be cancelled using pro rata estimated wages. Once the actual wages are received, a further proof of debt is to be submitted for the adjusted debt amount. Late payment fees stop being charged from the date of the Administrator's appointment. A proof of debt must be lodged with the Administrator.

NO further action is to be taken by the existing insurer until after the 2nd (or possibly subsequent) meeting of creditors has been held, where a decision will then be made on the future of the company. Once this has happened, the following action is to be taken by the existing insurer:

- (i) **Wind Up** – where it is decided that a company is to be wound up or liquidated, follow the procedures in accordance with 7.1 above for liquidations.
- (ii) **Deed of Company Arrangement** - where it has been decided that a DOCA is to be put into place, the following procedures are to be followed;
  - a) A proof of debt is to be lodged with the Administrator in order to prove the debt in the DOCA. This debt becomes part of the Provision for Doubtful debts, as other liquidated or bankrupt matters.
  - b) The policy is to be noted that the company is 'Subject to a Deed of Company Arrangement'.
  - c) At the end of the DOCA period, the distribution of funds as proved under the DOCA are to be allocated to the 'debt' as proved in the DOCA. Insurers are authorised to write off, without limit, the difference between the amount owed by the company and the total amounts received or estimated to be received, from the DOCA, as advised in writing by the Administrator.
  - d) The reference of 'Subject to a Deed of Company Arrangement' on the new policy records must be removed.

- (iii) **Control returned to Company** – where the control of the company is returned to the directors, recovery of any unpaid premium is to be pursued against the company. Late payment fees are recalculated and charged for the period of the administration. The outstanding premium and late payment fees continue to be pursued in the normal course until recovered. The reference of ‘administrator appointed’ is to be removed from the policy records.

*Note, if the insurer believes that the DOCA unfairly prejudices the insurer or there are other aspects of the administration of DOCA, which warrant serious complaint, the Authority must be notified immediately.*

### **New Insurer**

Where an Administrator commences a policy with a new insurer, if the premium is not paid, then the Administrator is to be pursued for payment of the premium. Once a meeting of creditors has been held to determine the future of the company, the following steps are to be taken

- (i) **Wind Up** – where it is decided that a company is to be wound up or liquidated. The new insurer is to cancel the policy from the date it was resolved that the company is to be wound up. The Administrator is to be pursued for the payment of the premium due on the policy for the period the company was under the control of the Administrator.
- (ii) **Control returned to directors** – where it is decided that the control of the company is returned to the directors, the policy **cannot** be cancelled. The company may only change insurers on expiry of the 12 month period or cancel the policy if they cease to trade (refer to IG. 01/xx which replaces IG 00/34). As the Administrator is liable for payment of premium for the period of his or her control, if the premium has not been paid, WorkCover agrees to accept actual wages from the Administrator for period of his or her control, to determine the amount payable by the Administrator. The company is responsible for payment of the balance of the premium. The reference of ‘Administrator Appointed’ is to be removed from the policy records.
- (iii) **Deed of Company Arrangement**- the same rules apply regarding cancellation as for (ii) above. The policy **cannot** be cancelled. The company may only change insurers on expiry of the 12 month period or cancel the policy if they cease to trade (IG. 01/xx, replacing IG00/34).

As the Administrator is liable only for payment of premium he or she incurs during the period of his or her control, WorkCover agrees to accept actual wages from the Administrator for period of his or her control, so as to determine the amount payable by the Administrator.

The company then is responsible for the balance of the premium full year's premium.

As part of this policy represents cover for the period which the Administrator had control of the company, and until the conclusion of the DOCA:

- a) The policy is to be noted that the company is 'Subject to a Deed of company Arrangement'.
- b) Any new premiums processed for the company after the Administration has ended are the responsibility of the company and recovery action is to be taken against the company and not the Administrator. Late payment fees are charged only on any new debts that arise.
- c) At the end of the DOCA period, the reference to 'Subject to a Deed of Company Arrangement' on the new policy is to be removed.
- d) A proof of debt is not to be lodged, as the debts of this policy do not form part of the DOCA.

### ***Processing dates and period of insurance***

- Any premiums (and consequently late payment fees) processed by an insurer relating to a period of insurance prior to the date of the Administrators appointed, is a debt that is to be proved in the Administration and subsequently in the DOCA, regardless of the processing date of the premium.
- Any premiums (and consequently late payment fees) processed by an insurer relating to a period of insurance commencing at the time during the Administrators appointment, are premiums to be recovered from the Administrator, regardless of the processing date of the premium. For example, an Administrator is appointed on 1 June, and the Administration ends on 1 September. The renewal premium is processed on 15 September for a period of insurance commencing 15 June. The Administrator is to be pursued for the payment of the premium.

## **7.2 Other Debtors**

### **Authorisation to write off Debts less than \$300**

These may be written off only after the required recovery procedures have been applied and all attempts to recover the debt has proven unsuccessful. Debts less than \$100 **may** be passed to a third party for collection if the insurer considers that the action is warranted and there is a reasonable expectation of a successful collection.

**Debts between \$100 and \$5,000 (for a company, sole trader, partnership or unincorporated body)**

The debt **must** be passed for litigation recovery action, if in-house recovery procedures have proven unsuccessful. An application for appointment of a liquidator or trustee in bankruptcy **must** be commenced.

The debt can be written off **only** after all attempts to recover the debt has proven unsuccessful.

**Debts exceeding \$5,000 (in the case of a company, sole trader, partnership or unincorporated body)**

As the above

The debt can only be written off

(i) after written advice is received from the liquidator, or trustee in bankruptcy, *that there is no distribution to unsecured creditors.*

(ii) Advise from the third party that the debts is irrecoverable.( for example where the company has been de registered)

(iii) make a written application to the Authority to write off the debt. Such application should include the following details:-

1. Employer's name
2. Amount
3. Number of months overdue
4. Policy number
5. Recovery action taken
6. Reason for proposed write-off
7. Details of the trading/financial position of the employer and if they are still operating
8. Reason why liquidation/bankruptcy proceedings are considered inappropriate

The debt may only be written off on receipt of the Authority's written approval.

The following areas should be looked at and considered when reviewing the trading/financial position of the employer and if they are still operating.

- a) The most up-to-date/latest balance sheet or set of financial accounts with last years comparative figures. This will give some indication of the debtors' financial viability.
- b) Whom these accounts were prepared by, i.e. the debtor or the debtor's accountant. This will give an indication of the level of reliability that can be placed on these accounts.
- c) What the assets of the entity comprise of;
- d) What the liabilities of the entity comprise of;

- e) The difference between the assets and the liabilities;
- f) Loans to or from shareholders of associated companies should be particularly scrutinised and in some cases may be discounted. In some cases loans to or from shareholders may be book entries only and they may not be able to be substantiated or their validity verified.
- g) Shares in associated companies should be looked at carefully as they may be in the books of the insured at par value only. Their real value could be considerably higher.
- h) Any evidence of assets such as stock or motor vehicles in particular 'disappearing' from the books of account. This sort of information can be obtained by comparing comparative years figures. Any such disappearances should be questioned and followed up by the insurer, particularly in regard to who received any proceeds of any sales.

### **7.3 Deregistered Companies**

A company becomes de-registered in the following situations;

1. For not lodging annual company returns and documentation with the Australian Securities Commission (ASC), and thereby possibly still trading.
2. On request by the Officers of the company, verifying that the company is no longer trading and has no creditors.

Should recovery procedures lead to information from the ASC that a company has been deregistered, the following action is to be taken;

#### **(i) Company still trading**

If it has been established that the company is still trading, the Insurer is to contact the employer advising them that their company is deregistered.

#### **Premium over \$5000**

If the employer does not intend to re-register the company, the insurer is to instruct their third party or in house litigation area to re-register the company and commence litigation proceedings.

#### **Premium under \$5000**

If the employer does not intend to re-register the company

- (i) if the debt is as a result of an automatic premium calculation (as defined at 3.11) , and the company was deregistered prior to renewal date, the policy is to be cancelled from inception of current term and the premium and any late

payment fee should be reversed off. Any costs incurred before this notification are to be charged to the statutory fund.

Or

- (ii) The policy is to be cancelled from deregistration date, pro rata the actual wages adjusting the premium, with the balance of debt being written off to bad debts.

Records of such write offs are to be kept on file and recorded as required on Form 7 monthly return.

**(ii) Company no longer trading**

If it has been established that the company has ceased to trade, (hence being the reason for being deregistered), provided that all attainable financial documentation such as company financial reports, indicates that the company has no assets that can be recovered, then

- (i) If the debt is as a result of an automatic premium calculation ( as defined at 3.11), and the deregistration date was prior to the renewal date, cancel the policy from inception of current term and the premium and any late payment fee is to be reversed off. Any costs incurred before this notification are to be charged to the statutory fund,

OR

- (ii) The policy is to be cancelled from deregistration date, pro rata the actual wages adjusting the premium, with the balance of the debt being written off, to bad debts.

Records of such write offs are to be kept on file recorded as required on Form 7 monthly return.

#### **7.4 Alternative Procedures**

Where the above are not appropriate and where Judgement Debts, cannot be enforced and/or where the debt is in excess of \$10,000, make written application to the Authority for approval to write off the debt.

#### **7.5 Provision for doubtful debts**

**Insurers are required to establish separate provisions for:-**

- specific doubtful debts, and
- general provision for future doubtful debts.

### ***Provision for specific doubtful debts***

Insurers are required to establish a **specific** provision for:-

1. all debts, regardless of value, owed by employers in receivership, liquidation, administration or bankruptcy, and
2. any other debts in excess of \$100,000 where recovery is considered doubtful. Where the debts of a group of employers known to be under common control **total** more than \$100,000, they should be provided against, even if the **individual** debts are less than \$100,000.

Details of each debt included in categories 7.5 are to be reported on Form 7.

### ***General provision for doubtful debts***

The Authority wishes to co-ordinate the creation of a **general** provision for doubtful debts. Insurers are to calculate the general provision as follows:-

- a) Deduct doubtful debts included in the specific provision from their respective age categories.
- b) Create a general provision equal to -
  - **70%** of the remaining debtors in the “over 6 months” category, **PLUS**
  - **40%** of the remaining debtors in the “3-6 months” category.

The general provision for doubtful debts is to be adjusted quarterly.

Thus, the provision for doubtful debts in the accounts of the statutory funds will henceforth have two components - specific and general.

## **SECTION 8 RECOVERIES**

### ***Third Party Costs***

Any costs debited to the statutory fund for the recovery of unpaid premiums and late payment fees are third party costs.

Third party costs include;

- ü Litigation costs incurred by either an external third party or insurers own in house litigation action. Litigation costs include court costs and filing fees associated with issuing legal documents for the recovery of unpaid premiums and late payment fees.
- ü Payments to external third parties for their services in addition to litigated costs.
- ü Disbursements such as ASC searches and photocopying, etc.

Third party costs form part of the debt and must be recovered from the employer. The Authority does not authorise insurers or their Third Parties to waive costs incurred where an employer can be pursued. Where recovery is not pursued by the insurer any such costs are to be borne by the insurer.

### ***Recovery of costs***

The payment of costs for external third party or in house litigation actions from the Fund is designed to reimburse insurers and their external third parties in the circumstances where recovery is not otherwise available. If third party costs are incurred then these must be charged to and recovered from the debtor. The Authority does not authorise insurers or their third parties to waive costs incurred where a debtor is still operating and able to be pursued.

If the insurer chooses not to pursue the debtor for recovery of costs either for commercial reasons or because of internal administrative errors or oversight by the insurer or the third party, the Statutory Fund is not to be charged. Insurers are directed to maintain adequate records of costs incurred, costs recovered and all costs recoverable. This area will be closely reviewed and monitored by the Authority.

### ***Requests for instructions and subsequent placing of matters on hold***

Effective timing in the debt recovery process is essential. The faster the legal process, the more likelihood there is of recovering outstanding amounts. Accordingly, insurers are requested to adhere to the following: -

1. Requests by third parties or in house litigation area for instructions are to be responded to within 10 days.

2. Insured should not instruct external third parties or their in house litigation area to place matters on hold for more than thirty days. If it is required to be placed on hold for more than thirty days, reasons must be noted and placed on file. An example of a suitable reason would be :-

- the recovery action for an earlier debt is in progress
- “wind up action” in progress by another creditor

Some reasons regarded as unsuitable would be: -

- employer has requested that the premium be recalculated on revised wages
- request for interest waivers or tariff/cost of claims appeals
- business being sold
- negotiating payment arrangement

**Note: Should a matter not be resolved within the 30 day period, then the third party or in house litigation area must proceed with recovery action and advise the Insurer accordingly.**

Insurers are directed to maintain adequate records of all current matters on hold and the reasons why they are on hold.

This area will be closely reviewed and monitored by the Authority.

## SECTION 9 MEASURE 3

### **Measure 3 methodology for 2001/2002**

An Insurer/WorkCover working party reviewed Measure 3 to determine its relevance and compliance with WorkCover and Insurer goal of making each measure as outcome based as possible. The Working Party considered the option of measuring the performance of insurers using cash collected (instead of overdue debt) as a proportion of GWP to be the best option to meet this goal. This option was accepted by the Insurer/WorkCover Remuneration Committee as the basis of Measure 3 for 2001 onwards.

Cash collected is matched against the gross written premium and late payment fee processed during the year during the same 12 month period.

The gross written premium processed during the year includes premium for policies

- commenced or renewed during the year and
- adjustments to premiums for policies commenced or renewed during the year as well as
- adjustments to premiums for policies commenced or renewed during previous years.
- Issued during the current period for a past period.

The cash collected and processed during the year is cash received in payment of gross written premium and late payment fees processed for the current year and any previous year. The objective of the cash collected methodology is to reach a 'net' cash collection figure to measure against gross written premium plus late payment fee. That is, the net amount of premiums and late payment fees collected less the costs associated with collecting this cash.

Therefore the cash collected result is to be a measure based on what has been processed into the insurers computer system. That is, the results must be a reflection of what has been processed for each employers policy.

The measurement period is July to June inclusive, which is consistent with the previous debt ratio methodology. Year to Date totals are to be the sum of the 12 month period July to June.

For unallocated cash and underwriting credits, the measurement will be totals for the relevant aging as at 30 June, being the end of the 12 month period. This is because the 'refunds' total will capture the required amounts throughout the year, so that the 30 June as at total will account for any other unactioned cash or underwriting credit for the just completed 12 month period. Therefore as at the new 12 month period commencing 1 July the total of unallocated cash and unallocated underwriting credits as at 30 June will continue to be accounted for in the new period commencing 1 July as unallocated cash, unallocated underwriting credits until refunded or allocated.

Note that 'net cash' referred to in Measure 3 does not have the same meaning as net cash defined in other areas of the Accounting Manual.

It is anticipated that moving to a cash collected performance measure will lead to improved efficiency, effectiveness and economies. Measuring the performance of insurers using cash collected will create equity between insurers as late payment fees and recovery costs now impact on the outcome. Insurers will have the choice of using third parties, negotiating an appropriate third party fee structure specific to their cash collection strategies, maximising in house debt collection and when to use the services of third parties.

It is not WorkCovers' aim to simply reduce third party involvement and costs as it does not automatically follow that reducing third party involvement will lead to an improved cash collection ratio. The rate of cash collected for each dollar paid to a third party is a more appropriate indicator of the effectiveness of cash collection activities. An increase in third party costs will be acceptable provided that the collection rate, (cost of recoveries) is decreasing.

Liquidation and bankruptcy costs will be excluded from the amount of third party costs to be used to calculate an insurers cash collection ratio. There is no relaxation in WorkCover's expectation that all available action is taken to recover overdue debts and pursuing debtors to liquidation and/or bankruptcy must be undertaken where payment of premium is avoided.

Wage audit fees charged to employers ( Insurer guideline 01/04) and the fees recovered, currently do not form part of Measure 3. The charging of wage audit fees are to be reported on Form 5.2.31 'Other Receivables'. The recovery of the wage audit fees are reported on Form 1.2.6 'Other'.

#### *Denominator*

#### **Gross Written Premium**

Total of gross written premiums processed during the relevant 12 month July to June period. Refer to Accounting Manual for complete definition.

#### **Gross Late Payment Fee**

Gross late payment fees debited to the debtor's ledger during the relevant 12 month July to June period and included in the insurer's accounts. Refer to Accounting Manual for complete definition.

#### *Numerator*

Cash Collected is the sum of

- Premiums receipted and processed to insurers computer system ( year to date total)
- Late payment fees receipted and processed to insurers computer system, ( year to date total)

#### **Less**

- Late payment fees waived ( year to date total )
- Cash refund of overpayments processed to insurers computer system ( year to date total )

- Cash refund of underwriting credits processed to insurers computer system ( year to date total)
- Unallocated cash over 1 month old ( total as at June year end)
- Unallocated Underwriting credits over 1 month old ( total as at June year end)
- Net third party recovery costs (as processed to insurers computer system) (year to date total)

**NB:**

- Year to Date total means cumulative total for the 12 months July to June.
- Total as at June year end means the total at the close of business 30 June.

**Premiums received**

Cash receipted and processed to insurers computer system during the relevant 12 month July to June period in payment of any premium amount.

Cash received by external third parties is not counted as cash received until it is cash receipted and processed to insurers computer system.

An overpayment is not payment of premium/late payment fee, it is cash that will be refunded. Until an overpayment is refunded it is to be treated as unallocated cash. Dishonoured payments are excluded (deducted) from cash received. To equal figure on Form 3.2

Cash received via direct deposit transactions are not to be included as premium received until the cash is transferred to the relevant Workers Compensation policy, or to a designated suspense account after it has been identified that the cash is for payment of a Workers Compensation premium. For this reason the cross reference to Form 3 premium receipts, which will include all direct deposits received in the month, may not agree. In such cases insurers should provide with Form 3 a reconciliation between the two amounts.

**Late payment fee received**

Cash receipted and processed to insurers computer system during the relevant 12 month July to June period for payment of late payment fees. Late payment fees received by external third parties are not counted as cash received until it is cash receipted and processed to insurers computer system. Reversal of late payment fees - the amount of late payment fees are net of reversed late payment fees. “Reversal” of late payment fees is correcting an error for a late payment fee that should not have been charged. To equal figure on Form 3.3.

Cash received via direct deposit transactions are not to be included as premium received until the cash is transferred to the relevant Workers Compensation policy, or to a designated suspense account after it has been identified that the cash is for payment of a Workers Compensation late payment fee. For this reason the cross reference to Form 3 late payment fee receipts, which will include all direct deposits received in the month, may not agree. In such cases insurers should provide with Form 3 a reconciliation between the two amounts.

## Late Payment Fees Waived

Waiver of late payment fees are late payment fees debited to the insurer's debtor's ledger and included in the insurer's accounts that are not required to be paid by the employer for the relevant 12 month July to June period. (see section 4.8 of the current Premium and Debt Collection Manual for details ). NB; 'reversal' of late payment fees are not the same as 'waived' late payment fees. "Reversal" of late payment fees is correcting an error whereas "waiving" acknowledges that the late payment fees were correctly charged however the late payment fees are not required to be paid.

## Refunds

Refund cheques (or cash refunds) processed to insurers computer system for an underwriting credit, or overpayment/incorrect payment/double payment of premium, late payment fees, or third party costs. To equal figure on Form 3.11.

Processed into the insurers system is the date that the refund cheque has been drawn.

An overpayment or double payment of premium represents an overstatement in the insurers 'cash received' total, as it is 'cash collected' which is not payment of premium, late payment fees or third party costs. The employer has simply paid more money than was required or it could be money in payment of other types of insurances and incorrectly credited to the workers compensation policy.

An underwriting credit has the effect of reducing the total gross written premium for any one insurer which would create an inflated cash collected result as no equal reduction has been made to the numerator of the ratio until it is either refunded or reaches 1 month old from date processed into insurers computer system.

Consequently in recognition that such transactions would create an unfair advantage in any one insurers' results, and keeping in line with equity principles these 'overpayments' and underwriting credits must be excluded from the 'cash received' total.

There are two ways to account for these,

### 1. Refunds cheques

Once unallocated cash has been identified as an overpayment/double payment, the money must be returned to the employer. Therefore, the **total** amount of refund cheques processed to insurers computer system for the relevant 12 month July to June period for overpayments are **deducted** from the cash collected figure.

Likewise once an underwriting credit has been created, and thereby reduced the gross written premium (denominator), in order to qualify the equation these underwriting credits must also be accounted for in the net cash collected (numerator). Therefore the **total** amount of refund cheques processed to insurers computer system for the relevant 12 month July to June period for underwriting credits, are **deducted** from the cash collected figure.

2. Alternatively, they will simply be accounted for as ‘unallocated cash’ or ‘unallocated underwriting credits’ once they reach 1 month- up to 2 months old and over ( refer to ‘unallocated cash’ and ‘unallocated underwriting credits’ definitions below) as at June year end.

**Unallocated Cash (1 month – up to 2 months and over, aged from date processed into insurers computer system)**

Unallocated cash is, cash received and processed to insurers computer system aged 1 month – up to 2 months old and over from the date processed into insurers system which is either,

- ü placed onto a policy and not allocated to an existing related debt,
- ü Or placed to a ‘suspense’ account because it is not known which policy it belongs to,
- ü And has not been refunded,

Therefore, if only part of the cash is allocated to an existing debt or refunded, then that part which is not allocated, is considered to be unallocated.

Any cash in a ‘suspense’ account is unallocated as it has not been allocated to a policy or to an existing related debt of a policy. To be ‘allocated’ means the cash received assumes the same ageing as the debt to which it is being allocated, or it has been allocated by way of being refunded.

Unallocated cash includes an overpayment, double payment or incorrect payment of premium, late payment fees or third party costs. Unallocated cash could also represent cash for payment of other types of insurances which has been credited to the employers workers compensation policy in error.

Consequently, until such time as the cash either becomes ‘allocated’ to another existing debt or **refunded**, or returned to the correct policy, it will simply form part of ‘unallocated ‘ cash. This means that unallocated cash will simply roll over into the next performance measure period and treated as such until it becomes allocated or refunded.

Note all cash should be allocated and/or refunded as soon as possible, but no later than one calendar month after the close of the month during which the cash was received by the insurer. (i.e. no later than 60 days from date processed into insurers system).

**Unallocated Underwriting credits (1 month – up to 2 months and over, aged from date processed into insurers computer system)**

Underwriting credits (such as return premiums or Premiums discount scheme discounts) processed to insurers computer system which are not allocated to an existing related debt, **or refunded**, and is aged 1 month – up to 2 months and over from date processed into insurers system of the underwriting credit. Therefore if only part of the underwriting credit is allocated to an existing debt or refunded, then that part which is not allocated, is considered to be unallocated. To be allocated means the underwriting credit assumes the same ageing as the debt to which it is being allocated, or it has been allocated by way of being refunded.

An underwriting credit includes return premiums which is owing to the employer (for example due lower actual wages declared). Consequently, until such time as the underwriting credit either becomes 'allocated' to another existing debt **or refunded**, it will simply form part of 'unallocated' underwriting credits. This means that the unallocated underwriting credit will simply roll over into the new performance measure period and treated as such until it becomes allocated or refunded.

### **Net third party costs**

Any costs debited to the statutory fund for the recovery of unpaid premiums and late payment fees are third party costs.

Third party costs include;

- ü Litigation costs incurred by either an external third party or insurers own in house litigation action. Litigation costs include court costs and filing fees associated with issuing legal documents for the recovery of unpaid premiums and late payment fees.
- ü Payments to external third parties for their services in addition to litigated costs.
- ü Disbursements such as ASC searches and photocopying, etc.

This means total third party costs paid and processed to insurers computer system **less** recovered third party costs that have been receipted and processed to insurers computer system for the relevant 12 month July to June period, regardless of when the third party costs were incurred. Third party costs mean costs directly related to activities carried out by external Third Parties or insurers in house, in the cash collection process up to and including the issuing of a Creditors Statutory Demand (459e notice) and Bankruptcy notice. It does not include the costs of collection activity undertaken by insurers direct employees. Bankruptcy and Liquidation costs are excluded from the calculation. Refer to liquidation and bankruptcy costs below. To equal Form 7.2.1.b

### **Liquidation and Bankruptcy costs**

Third party costs incurred **after** the issuing of a Creditors Statutory Demand (459e notice) and Bankruptcy notice, that is for winding up or bankruptcy proceedings are **excluded** from net third party costs. To equal form 7.2.1.b

### ***What does 'unallocated' mean?***

All policy transactions, whether an underwriting transaction or receipting of cash, is aged according to the definitions in the accounting manual

That is, all **cash** received is aged from the date processed into insurers computer system (DPIS), starting with **Current**. It will then move into the following ageing brackets as at each month end should the cash remain unallocated;

Under 1 month, 1 month – up to 2 months, 2 months - up to 3 months, 3 months –up to 6 months and over 6 months.

When cash is ‘allocated’ to an existing related debt it will then assume the same ageing as the debt to which it has been allocated.

All **underwriting** processing is aged from the date processed into insurers computer system (DPIS), starting with **Current**. . It will then move into the following ageing brackets as at each month end provided that the underwriting credit remains unallocated;

Under 1 month, 1 month – up to 2 months, 2 months - up to 3 months, 3 months –up to 6 months and over 6 months.

When an underwriting credit is ‘allocated’ to an existing related debt it will then assume the same ageing as the debt to which it has been allocated.

**Late Payment fees** are aged from the date processed into insurers computer system, starting with

Current, Under 1 month, 1 month – up to 2 months, 2 months - up to 3 months, 3 months –up to 6 months and over 6 months.

The best way to illustrate whether something is allocated or unallocated and how it will be accounted for in the new cash collected measure is by looking at an aged client/policy listing report

In all the following examples assume;

- July 2001 to June 2002 year
- Premium due for payment is \$5 000
- Using one policy for ease of demonstration.

**Example 1: Unallocated Cash**

Policy	current	Under 1 month	1 mth – upto 2 mths	2 mth – upto 3 mths	3 mths- upto 6 mths	Over 6 months	grand total
<b>W 123XYZ</b>							
<b>Premium due</b>		<u>\$ 5,000</u>					
<u>August payment</u>	\$ -4 000	\$ 5 000					
<b>Sub total</b>	\$ -4 000						
<b>August Total</b>	<b>\$ -4,000</b>	<b>\$ 5,000</b>					<b>\$ 1,000</b>

**Cash received as at August month end = \$ 4000**

At the end of August, the \$4000 received is unallocated because it has not been allocated to the existing debt of \$5000. That is, it has a **different** aging to the \$5000 debt.

**Being 'allocated' to a policy does not mean 'allocated'. It must be allocated to an existing related debt.**

Example 2 is an example of 'allocated'

**Example 2**

Policy W 123XYZ	current	Under 1 month	1 mth – upto 2 mths	2 mth – upto 3 mths	3 mths- upto 6 mths	Over 6 months	grand total
<i>Premium Due</i>			\$ 5000				
<i>August payment</i>	\$ -4000		<u>\$ -4000</u>				
<b>September allocation</b>	<u>\$ 4000</u>						
<b>Sub total</b>	\$0		\$1000				
<b>September Total</b>	<b>\$0</b>		<b>\$ 1000</b>				<b>\$ 1000</b>

The \$4000 received in August has now been 'allocated' to the debt of \$5000. The \$4000 is now aged the **same as the original debt** of \$5000. Therefore the 'current' aging bracket has now been cleared.

*Note:* the 'grand total' of the policy is the same in example 1 and 2, \$1000, but the treatment of each transaction is different.

**Example 3: Overpayment**

Assume premium due for payment is \$5000.

Policy W 123XYZ	current	Under 1 month	1 mth – upto 2 mths	2 mth – upto 3 mths	3 mths- upto 6 mths	Over 6 months	grand total
<b>Premium due</b>		\$ 5000					
September payment	\$-10 000	<u>\$-5000</u>					
September allocation	<u>\$ 5 000</u>						
<b>Sub total</b>	<u>\$-5 000</u>	\$ 0					
<b>September balance</b>	<b>\$ - 5000</b>	<b>\$ 0</b>					<b>\$- 5000</b>

**Cash Received as at September month end = \$10 000**

In example 3, \$5000 of the \$10 000 payment has been 'allocated' to clear the debt of \$5000, now nil. There is still \$5000 cash that has not been allocated, and thus 'unallocated cash' for September month end is \$5000.

This \$5000 is either to be refunded as it is an overpayment, or represents a premium deposit amount or some other debt. (See example 4 below)

#### Example 4

In this example assume the \$5 000 payment received in September is not identified as an overpayment and remains unallocated until January 2002 when it is identified as an overpayment and refunded. 'Cash received' totals for each month are as follows.

Policy W 123xyz	Unallocated cash over 1 month old	October 2001	November 2001	December 2001	January 2002
<b>Cash Received</b>		<b>\$ - 7000</b>	<b>\$ - 8000</b>	<b>\$ - 9000</b>	<b>\$ - 11 000</b>
<b>Premium due</b>					
<i>September payment</i>	\$-10 000	\$-10000	\$-10 000	\$-10 000	\$-10 000
<b>September allocation</b>	<u>\$ 5 000</u>	<u>\$ 5 000</u>	<u>\$ 5 000</u>	<u>\$ 5 000</u>	<u>\$ 5 000</u>
<b>Unallocated cash</b>	\$ -5 000	\$ -5 000	\$ -5 000	\$ -5 000	\$ -5 000
<b>January 2002 refund sub total</b>					<u>\$ 5 000</u> 0
<b>Cash received</b>	<b>\$ - 10 000</b>	<b>\$ - 7000</b>	<b>\$ - 8000</b>	<b>\$ - 9000</b>	<b>\$ - 6 000</b>

The cash received for the months of October, November and December is not affected by the unallocated cash amount of \$5000 as unallocated cash amounts are only accounted for as at June year end. In January however, when the overpayment is refunded the cash collected for January is reduced by \$5000. This is in line with the definition and treatment of refunds.

#### Example 5

In this example assume that the \$5 000 payment received in September is not identified as an overpayment and remains as unallocated cash as at June year end.

Policy W 123xyz	September 2001	March 2002	April 2002	May 2002	June 2002
<b>Cash Received</b>		<b>\$ - 7000</b>	<b>\$ - 8000</b>	<b>\$ - 9000</b>	<b>\$ - 11 000</b>
<b>Premium due</b>					
<i>September payment</i>	\$-10 000	\$-10000	\$-10000	\$-10000	\$ - 10000
<b>September Allocation</b>	<u>\$ 5 000</u>	<u>\$ 5 000</u>	<u>\$ 5 000</u>	<u>\$ 5 000</u>	<u>\$ 5 000</u>
<b>Sub total- Unallocated Cash</b>	\$ -5 000	\$ -5 000	\$ -5 000	\$ -5 000	<b>\$ - 5 000</b>
<b>Total Cash Received</b>	<b>\$ - 10 000</b>	<b>\$ -7000</b>	<b>\$ - 8000</b>	<b>\$ - 9000</b>	<b>\$ - 6 000</b>

As at June year end, the \$5000 unallocated cash will be over 1 month old and therefore cash collected is reduced by the unallocated cash amount of \$5000.

### Example 6

Example 6 demonstrates the treatment of unallocated cash from one year end into the next.

<b>Policy W 123xyz</b>	<b>September 2001</b>	<b>March 2002</b>	<b>April 2002</b>	<b>May 2002</b>	<b>June 2002</b>	<b>July 2002</b>
<b>Cash Received</b>		<b>\$ - 7000</b>	<b>\$ - 8000</b>	<b>\$ - 9000</b>	<b>\$ - 11 000</b>	<b>\$ - 4 000</b>
Premium due						
May payment				\$ - 10000	\$ - 10000	\$ - 10000
May Allocation				<u>\$ 5 000</u>	<u>\$ 5 000</u>	<u>\$ 5 000</u>
<b>Sub total - Unallocated Cash</b>				\$ - 5 000	\$ - 5 000	\$ - 5 000
<b>July 2002 Refund</b>						<b><u>\$ 5 000</u></b>
						0
<b>Total Cash</b>	<b>\$ - 10 000</b>	<b>\$ -7000</b>	<b>\$ - 8000</b>	<b>\$ - 9000</b>	<b>\$ - 11 000</b>	<b>\$ 1 000</b>

The unallocated cash amount of \$5000 received in May is not deducted from the cash collected total as at June year end because it is not aged over 1 month old. However in July of the new 2002 year when the unallocated cash is identified as an overpayment and refunded, the refund is then deducted from the July cash collected amount.

## SECTION 10

### Form 7 Accounting Manual Extract 2001/2002

All amounts on Form 7 are to be recorded inclusive of GST i.e. gross.

**FORMS 7.1, 7.2, 7.3 & 7.4**      **STATUTORY FUND DEBTORS STATEMENT**

#### DEFINITIONS AND INSTRUCTIONS

##### 7.1.1      **Gross Written Premium**

Is the gross written premium payable as calculated in accordance with the relevant Insurance Premiums Order, using the following formula;

If the employer is a Category A employer

$$P = (T \times (1 - S)) + (E \times S) + D + Q - I - Y$$

If the employer is a category B employer;

$$P = (T + (X \times T)) + D + Q - I - Y$$

Where:

P = the premium for the time being payable by the employer in respect of the period of insurance to which the policy relates

T = the basic tariff premium for the employer, calculated with respect to the period of insurance

S = the experience adjusted factor for the employer determined with respect to the period of insurance

E = the experience premium, if any for the employer determined with respect to the period of insurance

X = the excess surcharge factor for the employer determined with respect to the period of insurance

D = the dust diseases contribution, if any for the employer

Q = the premiums adjustment contribution, if any for the employer

I = is the input tax credit adjustment

Y = premium discount amount, if any for the employer

**The accounting treatment for premiums processed prior to the commencement of a policy renewal year is shown on page xx .**

### **7.1.2 Gross Written Premiums Receivable**

The total gross written premiums (P) and late payment fee processed, and remain unpaid.

Unallocated and unreconciled cash is to be included in the amounts reported in this column on Form 7.1

For the purpose of this report, gross written premiums receivable in respect of all policies that have been processed less payments received less return premiums plus late payment fees are to be aged as follows:-

- a. Current month** means the total of gross premiums (P) processed in the current month which remain unpaid at month end
  - Plus** the value of late payment fee calculated and debited to employers' accounts for the month. ( This applies to those insurers who age late payment fees from the date processed into insurers system.)
  - Less** forward-aged first and second statutory instalments where payment due dates are more than 1 month after the end of the current accounting month.
  - Less** unallocated and unreconciled cash
  - Plus** amounts previously aged "not yet due" (i.e.forward aged first and second statutory instalments) which have payment due dates during the next accounting month.
- b. Under 1 month overdue** means the total of premiums (P) and late payment fees that remain unpaid at month end and are less than 1 month past their due date.
- c. 1 month – up to 2 months overdue** means the total of premiums (P) and late payment fees that remain unpaid at month end and are between 1 and 2 months past their due dates.
- d. 2 months – up to 3 months overdue** means the total of premiums (P) and late payment fees that remain unpaid at month end and are between 2 and 3 months past their due date.

- e. **3 months – up to 6 months overdue** means the total of premiums (P) and late payment fees that remain unpaid at month end and are between 3 and 6 months past their due date.
- f. **Over 6 months overdue** means the total of premiums (P) and late payment fees that remain unpaid at month end and are more than 6 months past their payment due date.
- h. **NOT YET DUE** means the second and third statutory instalments for Category A policies where payment due dates are more than 1 month after the end of the current month. **Under no circumstances are pre debits (first statutory instalment notice amounts) to be included.** Pre debits are not debts and cannot be enforced at law and consequently are not to form part of premium income.

**Examples of how to age premium debts are shown on page 79.**

Form 7.1.2 now has for each ageing bracket the number of days from date processed into insurers computer system (DPIS) for each ageing category. Please note however that,

- ‘ 1-30 days from DPIS’ is to mean 1 Calendar month from DPIS,
- ‘31-60 days from DPIS’ is to be 2 calendar months from DPIS, and so on.

**Ageing of Cash Received, Ageing of Underwriting Credits and handling of Pre-Debits**

**A) Ageing of Cash Received**

Cash received is to be aged from the date processed into insurers system (DPIS).

However cash received that can be wholly allocated to an existing debt is to be allocated whereby the amount of cash allocated assumes the same ageing, at the time of processing, as the debt to which it is being allocated. If there is more than one debt then the cash allocated is to assume the ageing of the oldest debit (unless otherwise requested by the debtor) and if the cash received exceeds the amount of the oldest debit then the remaining cash is to assume the ageing of the next oldest debit and so forth until the cash received is fully allocated. An example of this is where a payment arrangement is in place and the employer is making monthly payments. The net amount outstanding for the debtor concerned is to be aged from transaction date and reflected on the correct line in section 2 of Form 7.1.

Cash received that exceeds the amount of all existing debts, is aged from date processed into insurers computer system and would then form part of unallocated cash until such time as it can be allocated to an existing debit or refunded

## Unallocated Cash

Cash received that,

ü has been placed onto a policy and is ***not*** allocated to an existing debt at month end

ü Or placed to a 'suspense' account because it is not known which policy it belongs to,

ü And, has not been refunded,

is considered to be **Unallocated** and is to be aged from date processed into insurers computer system starting with Current, under 1 month, 1 month – up to 2 months, 2 months - up to 3 months 3 months –up to 6 months and over 6 months, as follows:-

- a) Cash unallocated at month end during which the cash payment has been received (date processed into insurers system) is to be treated as **current** and reflected on line 2a (Current month) of Form 7.1
- b) Should the cash payment still be unallocated at the next month end, then the amount is to be shown on line 2b (under 1 month) of Form 7.1. If still unallocated at the following month end the cash will move to the 1 month – up to 2 months age band and so on until the cash amount has been allocated or refunded to the employer.
- c) Cash received from employers for deposit premium payments is to be treated as unallocated until such time as the policy period to which the payment applies has been processed to the insurers computer system ***and*** the full estimated premium (P) for the period has been debited to the premium and/or debtors ledger ***and*** the appropriate PG/PH Form and Premium Demand have been issued.

(Premium debits for new business or renewals are not to be processed to the premium and/or debtors ledger in part or in full until you are able to calculate the full initial premium (P) and issue both the Form PG/PH and Premium Demand). (Refer to the following note on Pre-Debits)

Unallocated cash includes an overpayment, double payment or incorrect payment of premium, late payment fees or third party costs. Unallocated cash could also represent cash for payment of other types of insurances which has been credited to the employers workers compensation policy in error. Consequently, until such time as the cash either becomes 'allocated' to another existing debt or **refunded**, it will simply form part of 'unallocated ' cash.

Note all cash should be allocated and/or refunded as soon as possible, but no later than one calendar month after the close of the month during which the cash was received by the insurer. (i.e. no later than 60 days from date processed into insurers system).

**B) Underwriting Credits - (being those credits which are created by an underwriting transaction)**

All **underwriting** processing is aged from the date processed into insurers computer system, starting with

Current, under 1 month, 1 month – up to 2 months, 2 months - up to 3 months 3 months –up to 6 months and over 6 months.

We have previously advised that underwriting credits should be refunded to the employer within one month of the end of the month in which the credit appears. This in principle is good commercial business practice as there is no provision whatsoever for the scheme to pay employers interest on monies of this nature whilst held in the books of accounts of insurers. There may however be good commercial business practices for an insurer not to abide with this rule i.e. The employer has a premium instalment falling due within a maximum of 2 months from the date of the underwriting transaction.

Therefore underwriting credits which are not allocated to an existing related debt or refunded are **unallocated underwriting credits**. Therefore if only part of the underwriting credit is allocated to an existing debt or refunded, then that part which is not allocated, is considered to be unallocated. To be allocated means the underwriting credit assumes the same ageing as the debt to which it is being allocated, or it has been allocated by way of being refunded.

An underwriting credit includes return premiums which is owing to the employer (for example due lower actual wages declared). Consequently, until such time as the underwriting credit either becomes ‘allocated’ to another existing debt **or refunded**, it will simply form part of ‘unallocated ‘ underwriting credits.

Ageing of these entries is to be from date processed into insurers computer system with the amount being aged current at the end of the month in which the transaction was processed and then moving to line 2b (under 1 month) at the end of the next month and so on until the underwriting credit is cleared.

**Examples showing what is allocated and unallocated are on page 72.**

**FORMS 7.1, 7.2, STATUTORY FUND DEBTORS STATEMENT (Cont.)  
7.3 & 7.4**

**C) Pre-Debits**

When a new policy period is set up on the insurer’s computer system the pre-debit for the deposit premium (irrespective of whether it is a renewal of an existing policy or completion of new business) is **not** to be debited to the debtors ledger. Premium (P) for the new policy period is to be credited to your gross premium written ledger and debited to your debtors ledger only after the estimated premium (P) for the policy period has been calculated, the PG/PH Form issued and the premium demand forwarded to the employer. Cash received for the deposit premium is to remain as unallocated cash until the full estimated premium is calculated and debited to the debtors ledger.

Under no circumstances are pre-debits to be reflected in the insurers books of accounts or included in the insurers financial returns to the Authority. Pre-debits are non-accountable amounts which when paid by employers prior to the stated due date allows the renewal premium to be paid in accordance with statutory instalments. Until such time as the renewal premium has been calculated, the PG/PH Form issued and the premium demand forwarded to the employer cash received for the deposit premium must be treated as unallocated cash and aged accordingly.

***Example No.1***

Policy renewed on 15 January 2001 and employer had not paid a deposit premium and has been granted a payment arrangement to pay \$250.00 per month until premium and penalty interest has been paid in full.

	<u><b>DEBIT</b></u>	<u><b>CREDIT</b></u>
Jan 2001      Original debt	2500.00	
Feb 2001      Cash Recd		250.00
Feb late payment fee	27.00	
Mar 2001      Cash Recd		250.00
Mar late payment fee	24.32	
<b><u>Balance outstanding 31/3/01</u></b>	<b><u>2,051.32</u></b>	

As at March month end this amount would appear in the aged band 2c (1 month - up to 2 months) on Form 7.1.

**FORMS 7.1, 7.2, 7.3 & 7.4 STATUTORY FUND DEBTORS STATEMENT (Cont.)**

**7.1.3 Gross Late Payment Fee ( Form 7.3.a)**

Are Late payment fees calculated and processed to the employers workers compensation policy and debited to the debtors ledger for the month and included in the insurers accounts for the relevant accounting period. This includes late payment fees charged on Audit premiums (section 175 of Act). Interest paid to employers as required under section 170 of the Act are excluded from the calculation of gross late payment fees. Gross late payment fee is shown on F7.3.a

Late Payment fees are aged from the date processed into insurers computer system, starting with, current, Under 1 month, 1 month – up to 2 months, 2 months - up to 3 months, 3 months –up to 6 months and over 6 months, and is to be included in the appropriate age category on F7.1.2.

Late payment fee has a due date equal to the date processed into insurers computer system.

**OR**

aged according to the ageing of the premium debt to which it relates.

Licensed Insurers are to choose either of the above options and advise the Authority of their choice. Licensed Insurers may change options of ageing, but only after advising the Authority in writing of the proposed change and its effective date.

**Late payment fees waived (Form 7.3.b)**

Waiver of late payment fees are late payment fees debited to the insurer's debtor's ledger and included in the insurer's accounts that are not required to be paid by the employer for the relevant accounting period. (see section 4.8 of the current Premium and Debt Collection Manual for details). Late payment fees waived is shown on F7.3.b

Note, 'reversal' of late payment fees is not the same as 'waived' late payment fees. "Reversal" of late payment fees is correcting an error whereas "waiving" acknowledges that the late payment fees were correctly charged however the late payment fees are not required to be paid.

**7.1.5 Overdue accounts exceeding \$100,000 (attach listing)**

In respect of an employer balance exceeding \$100,000 included in lines 7.1.2b to 7.1.2f, please state:-

- a) Name of employer
- b) Nature of business
- c) Amount(s)

- d) Number of days overdue for each amount
- e) Details of recovery action(s).

### **Form 7.1.6 Cash Collections ( Measure 3, 2001/2002 )**

The reporting of new figures on Form 7.1 are following changes made to the methodology of the Measure 3 performance measure from 1 July 2001. Cash collected will be measured as a proportion of gross written premium and late payment fees, rather than debtors. Refer to section 9 of the Premium Debt Collection Manual.

Cash Collected is the sum of

- Premiums receipted and processed to insurers computer system ( year to date total)
- Late payment fees receipted and processed to insurers computer system, (year to date total)

**Less**

- Late payment fees waived ( year to date total )
- Cash refund of overpayments processed to insurers computer system (year to date total)
- Cash refund of underwriting credits processed to insurers computer system (Year to date total)
- Unallocated cash over 1 month old (total as at June year end)
- Unallocated Underwriting credits over 1 month old (total as at June year end)
- Net third party recovery costs (as processed to insurers computer system) year to date total)

**NB:**

- Year to Date total means cumulative total for the 12 months July to June.
- Total as at June year end means the total that exists at the close of business 30 June.
- Wage audit fees charged to employers ( Insurer guideline 01/04) and the fees recovered ,currently do not form part of Measure 3. The charging of wage audit fees are to be reported on Form 5.2.31 ‘Other Receivables’. The recovery of the wage audit fees are reported on Form 1.2.6 ‘Other’.

**a. Premiums received**

Cash receipted and processed to insurers computer system for the relevant 12 month July to June period in payment of any premium amount. Cash received by external third parties is not counted as cash received until it is cash receipted and processed to insurers computer system. An overpayment is not payment of premium, it is cash that will be refunded or represents unallocated cash. Dishonoured payments are excluded (deducted) from cash received. To equal form figure on Form 3.2

Cash received via direct deposit transactions are not to be included as premium received until the cash is transferred to the relevant Workers Compensation policy, or to a designated suspense account after it has been identified that the cash is for payment of a Workers Compensation premium. For this reason the cross reference to Form 3 premium receipts, which will include all direct deposits received in the month,

may not agree. In such cases insurers should provide with Form 3 a reconciliation between the two amounts.

**b. Late payment fees received**

Cash receipted and processed to insurers computer system for the relevant 12 month July to June period for payment of late payment fees. Late payment fees received by external third parties are not counted as cash received until it is cash receipted and processed to insurers computer system. Reversal of late payment fees - the amount of late payment fees are net of reversed late payment fees. "Reversal" of late payment fees is correcting an error for a late payment fee that should not have been charged. To equal figure on Form 3.3.

Cash received via direct deposit transactions are not to be included as premium received until the cash is transferred to the relevant Workers Compensation policy, or to a designated suspense account after it has been identified that the cash is for payment of a Workers Compensation late payment fee. For this reason the cross reference to Form 3 late payment fee receipts, which will include all direct deposits received in the month, may not agree. In such cases insurers should provide with Form 3 a reconciliation between the two amounts.

**c. Late payment fees waived**

Waiver of late payment fees are late payment fees debited to the insurer's debtor's ledger and included in the insurer's accounts that are not required to be paid by the employer for the relevant 12 month July to June period. (see section 4.8 of the current Premium and Debt Collection Manual for details ). NB; 'reversal' of late payment fees are not the same as 'waived' late payment fees. "Reversal" of late payment fees is correcting an error whereas "waiving" acknowledges that the late payment fees were correctly charged however the late payment fees are not required to be paid.

**d. Refunds**

Refund cheques (or cash refunds) processed to insurers computer system for an underwriting credit, or overpayment/incorrect payment/double payment of premium, late payment fees, or third party costs. To equal figure on Form 3.11.

Processed into the insurers system is the date that the refund cheque has been drawn.

An overpayment, or double payment of premium represents an overstatement in the insurers 'cash received' total, as it is 'cash collected' which is not payment of premium, late payment fees or third party costs. The employer has simply paid more money than was required.

An underwriting credit has the effect of reducing the total gross written premium for any one insurer which would create an inflated cash collected result as no equal reduction has been made to the numerator of the ratio until it is either refunded or reaches 1 month old from date processed into insurers computer system.

Consequently in recognition that such transactions would create an unfair advantage in any one insurers' results, and keeping in line with equity principles these 'overpayments' and underwriting credits must be excluded from the 'cash received' total.

There are two ways to account for these,

#### 1. Refunds cheques

Once unallocated cash has been identified as an overpayment/double payment/incorrect payment, the money must be returned to the employer. Therefore, the **total** amount of refund cheques processed to insurers computer system for the relevant 12 month July to June period for overpayments are **deducted** from the cash collected figure.

Likewise once an underwriting credit has been created and thereby reduced the gross written premium (denominator), in order to qualify the equation these underwriting credits must also be accounted for in the net cash collected (numerator). Therefore the **total** amount of refund cheques processed to insurers computer system for the relevant 12 month July to June period for underwriting credits, are **deducted** from the cash collected figure.

2. Alternatively, they will simply be accounted for as 'unallocated cash' or 'unallocated underwriting credits' once they reach 1 month – up to 2 months old and over ( refer to 'unallocated cash' and 'unallocated underwriting credits' definitions below) as at June year end.

#### e. Unallocated cash ( aged 1 month – up to 2 months and over)

Unallocated cash, is cash receipted and processed to insurers computer system that is not allocated to an existing related debt, or refunded, and is aged 1 month – up to 2 months and over from the date processed into insurers computer system. Therefore, if only part of the cash is allocated to an existing debt or refunded, then that part which is not allocated, is considered to be unallocated. To be 'allocated' means the cash received assumes the same ageing as the debt to which it is being allocated, or it has been allocated by way of being refunded.

Unallocated cash includes an overpayment, double payment or incorrect payment of premium, late payment fees or third party costs. Unallocated cash could also represent cash for payment of other types of insurances which has been credited to the employers workers compensation policy in error. Consequently, until such time as the cash either becomes 'allocated' to another existing debt or **refunded**, it will simply form part of

'unallocated ' cash. This means that unallocated cash will simply roll over into the new performance measure period and treated as such until it becomes allocated or refunded.

Note all cash should be allocated and/or refunded as soon as possible, but no later than one calendar month after the close of the month during which the cash was received by the insurer. (i.e. no later than 60 days from date processed into insurers system).

**N.B** The year to date figure is not reported for unallocated cash. Only the June year end figure is to be reported in the year to date column for the June Form 7 return.

**f. Unallocated Underwriting credits (aged 1 month – up to 2 months and over)**

Underwriting credits (such as return premiums, premium discounts) processed to insurers computer system which are not allocated to an existing related debt, **or refunded**, and is aged over 1 month old from date processed into insurers computer system of the underwriting credit. Therefore if only part of the underwriting credit is allocated to an existing debt or refunded, then that part which is not allocated, is considered to be unallocated. To be allocated means the underwriting credit assumes the same ageing as the debt to which it is being allocated, or it has been allocated by way of being refunded.

An underwriting credit includes return premiums which is owing to the employer (for example due lower actual wages declared). Consequently, until such time as the underwriting credit either becomes ‘allocated’ to another existing debt **or refunded**, it will simply form part of ‘unallocated ‘ underwriting credits. This means that the unallocated underwriting credit will simply roll over into the new performance measure period and treated as such until it becomes allocated or refunded.

**N.B** The year to date figure is not reported for unallocated underwriting credits. Only the June year end figure is to be reported in the year to date column for the June Form 7 return

**g. Net third party costs**

Any costs debited to the statutory fund for the recovery of unpaid premiums and late payment fees are third party costs.

Third party costs include;

- ü Litigation costs incurred by either an external third party or insurers own in house litigation action. Litigation costs include court costs and filing fees associated with issuing legal documents for the recovery of unpaid premiums and late payment fees.
- ü Payments to external third parties for their services in addition to litigated costs.
- ü Disbursements such as ASC searches and photocopying, etc.

This means total third party costs paid and processed to insurers computer system less recovered third party costs that have been receipted and processed to insurers computer system for the relevant 12 month July to June period, regardless of when the

third party costs where incurred. Third party costs mean costs directly related to activities carried out by Third Parties or insurers in-house in the cash collection process up to and including the issuing of a Creditors Statutory Demand (459e notice) and Bankruptcy notice. It does not include the costs of collection activity undertaken by insurers direct employees. Bankruptcy and Liquidation costs are excluded from the calculation. Refer to liquidation and bankruptcy costs below.

*Liquidation and Bankruptcy costs*

Third party costs incurred **after** the issuing of a Creditors Statutory Demand (459e notice) and Bankruptcy notice, that is for winding up or bankruptcy proceedings are **excluded** from net third party costs.

Annexure 7.1.2 is to be completed for each employer that has incurred liquidation and bankruptcy costs. That is costs associated with liquidation and bankruptcy proceedings after a 459e notice and bankruptcy notice has been issued.

The best way to illustrate whether something is allocated or unallocated and how it will be accounted for in the new cash collected measure is by looking at an aged client/policy listing report

In all the following examples assume;

- July 2001 to June 2002 year
- Premium due for payment is \$5 000
- using one policy for ease of demonstration.

**Example 1: Unallocated Cash**

Policy	current	Under 1 month	1 mth – upto 2 mths	2 mth – upto 3 mths	3 mths- upto 6 mths	Over 6 months	grand total
<b>W 123XYZ</b>							
<b>Premium due</b>		\$ 5,000					
<u>August payment</u>	\$ -4 000						
Sub total	\$ -4 000	\$ 5 000					
<b>August Total</b>	<b>\$ -4,000</b>	<b>\$ 5,000</b>					<b>\$ 1,000</b>

**Cash received as at August month end = \$ 4000**

At the end of August, the \$4000 received is unallocated because it has not been allocated to the existing debt of \$5000. That is, it has a **different** aging to the \$5000 debt.

***Being ‘allocated’ to a policy does not mean ‘allocated’. It must be allocated to an existing related debt.***

**Example 2** is an example of ‘**allocated**’

Example 2

<b>Policy W 123XYZ</b>	current	Under 1 month	1 mth – upto 2 mths	2 mth – upto 3 mths	3 mths- upto 6 mths	Over 6 months	grand total
<i>Premium Due</i>				\$ 5000			
<i>August payment</i>	\$ -4000		<u>\$ -4000</u>				
<b>September allocation</b>	<u>\$ 4000</u>						
Sub total	\$0		\$1000				
<b>September Total</b>	<b>\$0</b>		<b>\$ 1000</b>				<b>\$ 1000</b>

The \$4000 received in August has now been ‘allocated’ to the debt of \$5000. The \$4000 is now aged the **same as the original debt** of \$5000. Therefore the ‘current’ ageing bracket has been cleared

*Note:* the ‘grand total’ of the policy is the same in example 1 and 2, \$1000, but the treatment of each transaction is different.

### **Example 3: Overpayment**

Assume premium due for payment is \$5000.

<b>Policy W 123XYZ</b>	current	Under 1 month	1 mth – upto 2 mths	2 mth – upto 3 mths	3 mths- upto 6 mths	Over 6 months	grand total
<b>Premium due</b>			\$ 5000				
September payment	\$-10 000	<u>\$-5000</u>					
September allocation	<u>\$ 5 000</u>						
sub total	\$-5 000						
<b>September balance</b>	<b>\$ - 5000</b>	<b>\$ 0</b>					<b>\$- 5000</b>

**Cash Received as at September month end = \$10 000**

In example 3, \$5000 of the \$10 000 payment has been ‘allocated’ to clear the debt of \$5000, now nil. There is still \$5000 cash that has not been allocated, and thus ‘unallocated cash’ for September month end is \$5000.

This \$5000 is either to be refunded as it is an overpayment, or represents a premium deposit amount or some other debt. (See example 4 below)

#### Example 4

In this example assume the \$5 000 payment received in September is not identified as an overpayment and remains unallocated until January 2002 when it is identified as an overpayment and refunded. 'Cash received' totals for each month are as follows.

Policy W 123xyz	Unallocated cash over 1 month old	October 2001	November 2001	December 2001	January 2002
<b>Cash Received</b>		<b>\$ - 7000</b>	<b>\$ - 8000</b>	<b>\$ - 9000</b>	<b>\$ - 11 000</b>
Premium due					
September payment	\$-10 000	\$-10000	\$-10 000	\$-10 000	\$-10 000
September allocation	<u>\$ 5 000</u>	<u>\$ 5 000</u>	<u>\$ 5 000</u>	<u>\$ 5 000</u>	<u>\$ 5 000</u>
Unallocated cash	\$ -5 000	\$ -5 000	\$ -5 000	\$ -5 000	\$ -5 000
January 2002 Refund					<u>\$ 5 000</u>
Sub total					0
<b>Cash received</b>	<b>\$ - 10 000</b>	<b>\$ - 7000</b>	<b>\$ - 8000</b>	<b>\$ - 9000</b>	<b>\$ - 6 000</b>

The cash received for the months of October, November and December is not affected by the unallocated cash amount of \$5000 as unallocated cash amounts are only accounted for as at June year end. In January however, when the overpayment is refunded the cash collected for January is reduced by \$5000. This is in line with the definition and treatment of refunds.

#### Example 5

In this example assume that the \$5 000 payment received in September is not identified as an overpayment and remains as unallocated cash as at June year end.

Policy W 123xyz	September 2001	March 2002	April 2002	May 2002	June 2002
<b>Cash Received</b>		<b>\$ - 7000</b>	<b>\$ - 8000</b>	<b>\$ - 9000</b>	<b>\$ - 11 000</b>
Premium due					
September payment	\$-10 000	\$-10000	\$-10000	\$-10000	\$ - 10000
September Allocation	<u>\$ 5 000</u>	<u>\$ 5 000</u>	<u>\$ 5 000</u>	<u>\$ 5 000</u>	<u>\$ 5 000</u>
<b>Sub total Unallocated Cash</b>	<b>\$ -5 000</b>	<b>\$ -5 000</b>	<b>\$ -5 000</b>	<b>\$ -5 000</b>	<b>\$ - 5 000</b>
<b>Total Cash Received</b>	<b>\$ - 10 000</b>	<b>\$ -7000</b>	<b>\$ - 8000</b>	<b>\$ - 9000</b>	<b>\$ - 6 000</b>

As at June year end, the \$5000 unallocated cash will be over 1 month old and therefore cash collected is reduced by the unallocated cash amount of \$5000.

## Example 6

Example 6 demonstrates the treatment of unallocated cash from one year end into the next.

Policy W 123xyz	September 2001	March 2002	April 2002	May 2002	June 2002	July 2002
<b>Cash Received</b>		\$ - 7000	\$ - 8000	\$ - 9000	\$ - 11 000	\$ - 4 000
Premium due						
May payment				\$ - 10000	\$ - 10000	\$ - 10000
May Allocation				\$ 5 000	\$ 5 000	\$ 5 000
<b>Sub total</b>				\$ - 5 000	\$ - 5 000	\$ - 5 000
<b>Unallocated Cash</b>						
<b>July 2002 Refund</b>						<u>\$ 5 000</u> 0
<b>Total Cash</b>	\$ - 10 000	\$ -7000	\$ - 8000	\$ - 9000	\$ - 11 000	\$ 1 000

The unallocated cash amount of \$5000 received in May is not deducted from the cash collected total as at June year end because it is not aged over 1 month old. However in July of the new 2002 year when the unallocated cash is identified as an overpayment and refunded, the refund is then deducted from the July cash collected amount.

## Form 7.2

### 7.2.1 Recovery action

#### a. Referral of debts to external third Parties only

Refers to premium and late payment fee referred to the relevant external third party this month, split into the appropriate ageing category.( as per ageing in Form 7.1.2)

#### b. Debtor Recovery results (external third party or in house litigation)

Cash received for debts that have been referred to an external third party or in house litigation for recovery action.

#### *Premium and late payment fees received*

Premiums and late payment fees received for debts referred during the relevant fund year. For '1997 fund year & earlier', combine the cash collected for all the fund years and report as one total.

#### *Example*

\$5000 debt referred in May 1999, paid July 2001. The \$5000 received would be reported in the 1998 fund year, on the July 2001 Form 7.2.b return.

### *Third party costs paid*

Third party costs paid and processed to the insurers computer system for the month, for a debt referred in the relevant fund year (inclusive of bankruptcy and liquidation costs paid). Third party costs as defined in section 5.9 Third Party Costs.

#### *Example*

\$695 fee paid in July 2001, for a debt referred in March 2001. The \$695 fee paid would be reported in the 2000 fund year, on the July 2001 Form 7.2.b return.

### *Third party costs received*

Cash received for the month, for third party costs incurred for a debt referred in the relevant fund year.

#### *Example;*

\$450 received in July 2001 for payment of legal costs incurred for a debt referred in April 2000. The \$450 cash received would be reported in 1999 fund year, on the July 2001 Form 7.2 .b return.

### *Bankruptcy and Liquidation costs*

Third party costs paid and processed for the month, being for costs incurred **after** the issuing of a Creditors Statutory Demand (459e notice) and Bankruptcy notice, that is for winding up or bankruptcy, for a debt referred in the relevant fund year.

#### *Example;*

\$3500 paid in September 2001 for costs incurred after the issuing of a 459e notice, for a debt referred in March 2001. The \$3500 paid would be reported in the 2000 fund year on the September 2001 form 7.2.1 return.

### *Net third party Costs*

Third party costs paid *less* Bankruptcy and Liquidation costs paid, *less* Third party costs recovered. This is to equal Form 7.1.6.g

## **7.2.2 Reconciliation of debtors recovery actions for overdue debts with amounts aged, 2 months – up to 3 months and over past their due dates.**

This reconciliation is to monitor what action is being taken in relation to overdue debts aged over 2 months old. That is, of the total overdue debts from Form 7.1.2d to 2f, how much is on in-house payment arrangements, with external third parties, in house litigated recovery action, pending section 170 applications, in liquidation or bankruptcy or less than \$100.

Where there is a variance greater than 5% in the \$ amount, a brief explanation is to be submitted with the monthly Form 7.2. Return.

This schedule is to include all overdue debts exceeding \$100, not already identified in Form 7.2.2a to 2f, and to include the following information

- a. name of employer
- b. Policy number
- c. Amount of debt ( aged 2 months – 3 months & over)
- d. Number of months overdue
- e. Explanation of what action has been taken
- f. Total \$ value ( to equal variance on Form 7.2.2)

### **Form 7.3**

#### **7.3.1 Bad debts written off**

The total of premium and late payment fee which has been written off to the Profit & Loss account or to the bad debt provision account as uncollectible. This total is then split into aged over or under 6 months old, and written off to provision or profit & loss accounts.

#### **7.3.2 Provision for doubtful debts as at .....**

The provisions for specific and general doubtful debts are to be entered in their respective areas. These provisions are to be calculated as set out on page 78.

Note that provisions relating to premium/late payment fees debts are reported on this Form. Any provisions for other debts such as claims excess can be charged as an expense on Form 1.2.25.

**Note:-** The Authority reserves the right to have access to Third Party reports and related documents. Third Parties are to be instructed accordingly.

#### **Form 7.4 Details of bad debts written off of \$10,000 or over**

This form provides details of all debts of \$10,000 or over which have been written off during the month.

In addition to the above total, figures are to be provided for debts of less than \$10,000 which have been written off during the month and the total bad debts written off for the year to date.

**Note:-** The total amounts for the month and year to date on Form 7.4 are to agree with the corresponding amounts on Form 7.3

The details required on this form are:-

Policy number

Employer's name  
Amount of debt written off  
Number of days overdue  
Recovery actions taken (brief details only)  
Reason for write off

Total amount written off of debts \$10,000 or over for the month

Total amount written off of debts less than \$10,000 for the month

Total amount written off as bad debts for this month (agrees with Form 7.3.1 - month)

Total YTD amount written off last month

Total YTD amount written off this month (agrees with Form 7.3.1 - YTD)

### **CROSS-REFERENCES TO OTHER FORMS**

#### **Monthly**

7.1.6 (a)	<b>equals</b> 3.2
7.1.6 (b)	<b>equals</b> 3.3
7.1.6 (d)	<b>equals</b> 3.11

#### **Quarterly**

7.1.2i minus 7.3.2  
(specific plus general) **equals** 5.2.30

If any of the above cross-references do not match, please attach a reconciliation explaining the differences.

### **PROVISION FOR DOUBTFUL DEBTS**

#### **Specific provision for doubtful debts**

Licensed insurers are required to establish a **specific** provision for:-

- i) all debts, regardless of value, owed by employers in receivership, liquidation or bankruptcy, and
- ii) any other debts in excess of \$100,000 where recovery is considered doubtful. Where the debts of a group of employers known to be under common control **total** more than \$100,000, they should be provided against, even if the **individual** debts are less than \$100,000.

## General provision for doubtful debts

The Authority wishes to co-ordinate the creation of a **general** provision for doubtful debts. Licensed insurers are to calculate the general provision as follows:-

- i) Deduct doubtful debts included in the specific provision from their respective age categories.
- ii) Create a general provision equal to -
  - a) **70%** of the remaining debtors in the "over 6 months" category, **PLUS**
  - b) **40%** of the remaining debtors in the "3-6 months" category.

The general provision is to be adjusted quarterly.

Thus, the provision for doubtful debts in the accounts of the statutory fund will have two components - specific and general.

### EXAMPLES OF HOW TO AGE PREMIUM DEBTS

#### Category A policy

Policy period	30/6/00 - 30/6/01	
Date of processing	15/8/00	
Estimated premium	\$9,000	
Deposit premium	\$2,000	paid 28/7/00
1st instalment	\$4,000	payment due date 31/10/00
2nd instalment	\$3,000	payment due date 28/2/01

As at **August** month end, since premium deposit amount was paid on time, nothing appears in "Current Month" and 1<sup>st</sup> and 2<sup>nd</sup> statutory instalment totalling \$7,000 would be classified "Not Yet Due".

As at **September** month end, the first of \$4,000 would be classified "Current Month" and the second statutory instalment of \$3,000 would be classified "Not Yet Due".

As at **January** month end, the second statutory instalment of \$3,000 would be classified "Current Month"

## Category A policy

Policy period	15/8/00 - 15/8/01
Date of processing	14/9/00
Estimated premium	\$9,000
Deposit premium	\$2,000 paid 13/9/00
1 <sup>st</sup> instalment	\$4,000 payment due date 15/12/00
2nd instalment	\$3,000 payment due date 15/4/01

As at **October** month end, since the deposit premium is paid on time, nothing appears in "Current Month" and 1<sup>st</sup> and 2nd statutory instalment totalling \$7,000 would be classified "Not Yet Due".

As at **November** month end, the first statutory instalment of \$4,000 would be classified "Current Month" and the third statutory instalment of \$3,000 would be classified "Not Yet Due".

If first statutory instalment has not been paid as at 23/12/00, both the second and second statutory instalment totalling \$7,000 would become due and would be classified "Overdue under 1 month".

As at **April** month end, if no amount had been paid, the \$7,000 would be classified "Overdue 3-6 months".

### **Forfeited statutory instalments**

When an employer fails to pay a 1st Statutory Instalment by the payment due date the right to continue to pay by statutory instalments is forfeited, and the 2nd statutory instalments become due and payable as from the payment due date of the 1<sup>st</sup> statutory instalment or 1 calendar month after the issue of the Form PG whichever is the latter.

These forfeited statutory instalments are to be aged from the due date of the 1<sup>st</sup> statutory instalment payment due date or the date of issue of the Form PG as set out above.

**30 JUNE INCEPTION PREMIUMS PROCESSED**  
**PRIOR TO CLOSE OF FINANCIAL YEAR ACCOUNTS**

1. A small number of insurers have been in a position where 30 June inception business has been processed (i.e. PG notice issued) and/or cash received prior to the end of the financial year.

E.G. 2001PRY premiums written prior to 30 June 2001.

2. Prior to the adoption of the current accounting returns, insurers would prepare an additional Form 6 (Statutory Fund Revenue Account) for the new PRY showing the premiums processed as premium income.
3. Current accounting returns prevent such a practice as the equivalent Form 1 has no provision for recording such premiums in the appropriate PRY.
4. The following is considered the most appropriate accounting treatment and furthermore preserves market share (i.e. premiums) and debtors statistics:-

- (a) Cash receipts should be accounted for in the normal manner and recorded on Form 3 Cashflow as premium receipts.

Cash would be shown as unallocated on Form 7 Debtors until the PG notice is processed in due course.

- (b) Premiums processed (i.e. written) would normally be accounted for as follows:-

**DR** Debtors  
**CR** Premiums written

In these circumstances premiums written should then be adjusted as follows:-

**DR** Premium written  
**CR** Sundry Creditors and Accruals

This entry effectively treats such premiums as unearned revenues and accordingly are treated as liabilities in the balance sheet (Form 5.1.19). Such amounts are not recognised as premium income as at 30 June and no recording on Form 1 is necessary.

Note that this has been the accounting treatment in previous years by the Authority when preparing consolidated accounts.

On 1 July (or effectively the September quarterly returns) the above entry is reversed and recorded as premium income in the normal manner.

No other accounting adjustments are considered necessary. Debtors are not required to be reversed and amounts should be aged current month or not yet due on Form 7.

## SECTION 11

### DEFINITION OF TERMS

***Act***

Workers Compensation Act, 1987

***Abinitio***

From the inception date of the current term of insurance.

***Adjustment for size***

Limits the experience premium adjustment for Category A employers whose basis tariff premium does not exceed \$112,000 to not more than twice the basic tariff premium amount.

**Note:-** If the basic tariff premium exceeds \$112,000 there is a maximum premium limit on the experience premium adjustment as per Schedule 9 of the Insurance Premiums Order.

***Adjustment of premium***

Refer - Clause 24 (1) Adjustment of Premium - Workers Compensation (Insurance Premiums) Regulation 1995.

The adjustment made to the original premium calculation at the end of the policy period, after the wages for the policy period are known. This adjustment can be either an extra premium or a return premium. Any extra premium due is payable within 1 calendar month after the service on the employer of a notice that payment is due.

***Aged list of debtors balances***

The listing of ALL individual debtors balances showing the age of each debt. This listing includes premiums, cash and late payment fee and the ageing is to enable the completion of Form 7.1 Consolidated Statutory Funds Debtor Statement.

The balances are to be aged in accordance with the instructions issued by the Authority in the Accounting Manual.

### ***Basic Tariff Premium (Schedule 3 - Insurance Premiums Order)***

Is calculated in accordance with Schedule 3 of the Insurance Premiums Order and is the estimated or actual wages paid X tariff rate.

The basic tariff premium is used to determine if an employer is a Category A or B employer.

### ***Category A Employer***

An employer whose **basic tariff premium** exceeds \$3,000, assuming the period of insurance to which the premium relates to be 12 months (whether or not that period of insurance is in that 12 months) e.g. Annualised premium. Category A employers may be entitled to an experience premium adjustment. **All** Category A employers must bear the claims excess for each and every claim.

### ***Category B Employer***

An employer who is **not** a Category A employer.

### ***Claims Excess***

The amount that a Category A employer must bear in respect of each and every claim. Category B employers who **do not** elect to pay the Excess Surcharge must pay the claims excess.

### ***Claims Excess Surcharge***

The amount payable by Category B employers, under Schedule 6 of the Insurance Premiums Order, to remove the Claims Excess.  
This is usually a percentage of the tariff premium.

### ***Commencement Date (Inception Date)***

The first day on which the policy is in force after having been issued or renewed.

### ***Company***

Is a body corporate incorporated pursuant to, or registered under, the provisions of the Corporations Law.

### ***Period of Insurance***

Refer to Schedule 1 - Insurance Premiums Order - Definitions.

The period for which an insurer assumes risk under the policy, commencing on the first day on which the policy is in force after having been issued or renewed.

### ***Short Term***

This is the effect of cancelling a policy before the expiry of its agreed period of cover. Thus the policy is in force for a “short term” when compared to the original period of cover. Short term policies are usually the result of the employer becoming bankrupt or placed in liquidation. Also where the employer ceases business. Policies may be issued for “short terms” so that the policy can have a common due date with other companies within a group.

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