

# Fishing Policy Consultation: Classification Units by Gear Type

## The Problem

Currently, the Workers' Compensation Board (WCB) is not collecting information in a way that allows it to effectively manage its activities in the fishing industry. For example, the assessment system does not distinguish between different types of fisheries<sup>1</sup>. Because of this, commercial buyers (who pay assessments on fish purchased) all pay the same rate. As a result, the WCB suspects that the fisheries that have high accident rates and high claims costs are being subsidized by the fisheries that have lower accident rates and lower claims costs.

As well, since accident data is not broken down by fishery, the WCB is not able to determine which fisheries are generating the most accidents and highest costs. This means the Prevention Division of WCB is unable to confirm whether it is targeting its prevention programs at the high-risk, high-cost fisheries.

## The Proposed Solution

This paper will discuss a proposal to create six new assessment classification units to distinguish between the different fisheries. This would allow the WCB to consider modifying assessment rates for different fisheries, based on their relative claim cost averages. It also would allow the Prevention Division to identify the high-risk, high-cost fisheries. This is a proposal only — the WCB welcomes other suggestions for how to collect more useful assessment and prevention information about the fishing industry.

## Background

### *How does the WCB classify different industries?*

In January 2000 the WCB moved to a new classification system as part of the Employer Services Strategy (ESS). The main elements of the new classification structure are:

- **classification units** enable the WCB to classify employers based on similarity of products or services, processes, inputs, and equipment. For example, the agriculture industry is split into classification units such as berry farms, orchards and vineyards.
- classification units are grouped into **industry groups** e.g., fruit farms, to calculate relative claim cost averages for these industries.
- **rate groups** have a minimum size criteria to ensure that the insurance pools are large enough to predict future costs. Assessment rates are calculated and charged to employers at the rate group level. Some industry groups are large enough to stand alone as rate groups. Otherwise, industry groups are placed in a rate group with other industry groups that share similar injury cost rates.

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<sup>1</sup> For the purposes of this paper, "fisheries" refer to fisheries by gear type rather than fisheries by species.

## ***How is the fishing industry classified?***

Up until 1999, the WCB classified all employers in the fish harvesting industry in subclass 0911. The subclass consisted of fishing, fish collection, and whaling operations.

While the new ESS classification system significantly restructured some industries, this was not true for fishing. Subclass 0911 was carried into the new system as a stand alone rate group called “fishing.” Unlike other industries, the fishing industry is not broken down at either the industry group or classification unit level.

For 2000, the assessment rate is \$6.50 per \$100 of “estimated”<sup>2</sup> payroll. All fishing industry employers pay the same assessment rate, regardless of injury rates or claims costs. This is because the WCB does not track information in a way that allows it to identify those segments of the industry that generate high claims costs.

## ***Why the single classification approach?***

In 1975, the government amended the *Workers Compensation Act* and enacted the *Fishing Industry Regulations*. Commercial fish buyers were deemed to be the employer<sup>3</sup> for some purposes, including the obligation to pay assessments to the WCB.

This arrangement, set up as a means to provide universal coverage to fishers, is different from how rates are set and assessments are collected in all other industries. In addition, this arrangement does not allow experience rating.

The WCB uses experience rating to adjust employers’ base assessment rates to better reflect their individual claim costs. Employers whose claims costs are below their rate group average get a discount. Employers whose claims costs are higher than their rate group average pay a surcharge. The main goals for experience rating are to use financial incentives to encourage employers to reduce injuries and claims costs, and to promote greater equity amongst employers. In fishing, most “employers” have no direct control over the health and safety practices of fishing vessel masters and their crews, and, as a result, financial incentives and disincentives have not been applied.

## ***How are fishers classified in other jurisdictions?***

The classification systems of other Canadian maritime jurisdictions, Alaska, and Washington state do not offer much help to the British Columbia WCB in addressing its fishing classification issues. The United States systems provide a minimal level of coverage. The Canadian provinces tend to fall into two categories: classification systems that separate inland fishing operations from saltwater operations; and, systems that combine geographic

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<sup>2</sup> For most industries, assessments are based on actual payroll. In fishing (in the absence of paper work demonstrating otherwise), the WCB estimates assessable payroll to be 60% of the gross purchase price of the fish.

<sup>3</sup> The WCB defines employers differently depending on the function. For assessment purposes, the first commercial buyer is defined as the employer. For prevention and occupational health and safety purposes, the vessel owner or master are considered to be the employer.

area of operation with cost rates and fish species. The WCB is not aware of any jurisdictions that classify by gear type.

### ***How will the proposal assist with injury prevention activities?***

Accident prevention is the WCB's primary mandate. Providing statistical information on injury costs is an important service the WCB provides to industry. Because claims costs information is currently kept at an aggregate level in the fishing industry, the WCB is not able to provide more detailed information to employers. Further, it cannot use this information to assist in developing timely prevention programs for high-risk, high-cost fisheries.

### ***What is the WCB doing to assist the fishing industry?***

The WCB is dedicated to working with fishing industry stakeholders to develop practical, viable options to address the issues facing the industry. In August 1999, the WCB Panel of Administrators approved a proposal to write-off all subclass deficits (including the \$33.6 million fishing industry deficit) as part of the ESS transition to the new classification system. In September 1999, the Senior Executive Committee appointed a Senior Operating Officer, Fish Harvesting, to implement a broad range of operational strategies to address the issues arising from previous rounds of stakeholder consultation.

## **Issues**

### ***Why create classification units by gear type?***

In 1998, the WCB conducted an in-depth study of the fish harvesting industry. The study, and subsequent rounds of stakeholder consultation, identified possible methods for addressing WCB's information collection challenges in the fishing industry. Creating additional classification units was discussed with stakeholders during these consultation meetings. Some employers who pay assessments in the fishing industry questioned the equity of the current classification system. They suggested that creating classification units by gear type might provide detailed information that would allow the WCB to adjust assessment rates to better reflect the actual claims costs generated by different fisheries.

Also, it was suggested that this information would enable the WCB to determine whether the cost of injuries is significantly higher in some fisheries.

If the WCB were to track accident claims costs at the classification unit level for a few years and determine that cross-subsidization was in fact occurring, then it may be possible to increase equity within the industry by adjusting assessment rates of gear type-based classification units. This would effectively introduce financial incentives and disincentives to the industry at the fishery (classification unit) level.

### ***What would be some of the economic implications for the industry?***

Fish buyers would pay higher assessment rates on fish purchased from fishers who participate in high claims cost fisheries. They would also pay lower rates on fish purchased from fishers in low claims cost fisheries. The proposed changes might result in fish buyers

choosing to purchase salmon caught using a lower rate gear type over salmon caught using a higher rate gear type.

The proposed changes may also impact the stability of assessment rates. Because the rate group payroll and the volume of claims for the entire fishing industry are not large, assessment rates tend to fluctuate from year to year. This rate volatility would be even more noticeable at the individual classification unit level.

### ***How many gear types?***

At this time, the WCB is considering grouping the industry into six possible gear types. The six classification units under consideration attempt to group similar hazard fishing operations. They are presented on page one of the attached Reply Form. Stakeholders are encouraged to comment on the proposed options.

### ***When might this happen?***

Because the WCB needs several years of data to generate statistically credible assessment rates, even if the WCB started collecting data by gear type immediately, the fishing industry would not experience the rate adjustments for a few years. Until then, employers would continue to pay the same assessment rate. After that time, the proposed changes would likely not be fully implemented until after a transition period.

### ***Would this increase the administrative effort for commercial fish buyers?***

Possibly. Employers would have to track fish purchases by gear type<sup>4</sup> and this would take more time. However, it is our understanding that some employers are already collecting information at this level of detail as part of their normal business practices.

### ***Would this increase the administrative effort for the WCB?***

Yes. Currently, most employers register with the WCB over the phone through the Employer Service Centre. The length of time it takes to register an employer or make changes to existing employer accounts would increase — especially if an employer was registered under more than one classification unit.

Also, the introduction of new classification units would add more steps in how the WCB audits the fishing industry. Audits would expand from verifying payrolls, which is the current practice, to verifying payrolls by gear type. This would increase the administration required by audit staff and substantially increase the time it takes to complete an audit. Further, dedicated resources would be required for monitoring and enforcing the proposed classification changes.

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<sup>4</sup> Consistent with WCB policy that applies to all industries, payroll collected in the fishing rate group includes assessments paid on fish purchased as well as the payroll of workers directly supporting fishing activities such as acquiring departments, netloft personnel and other support activities.

## ***Would creating classification units by gear type support the implementation of Bill 14?***

Yes. For prevention purposes, in the fall of 1999 the *Workers Compensation Amendment Act (Bill 14)* formally assigned vessel owners and masters the role of employers and gave them added responsibility for health and safety. Over the long run, a focused prevention effort could assist in reducing the industry's high injury and cost rates.

## **Opinions**

### ***What do stakeholders have to say about classification units by gear type?***

So far, most stakeholders have moderately supported the proposal to create new classification units by gear type. Some say the reason for their support is that they believe it will reduce cross-subsidization by holding those segments of the industry that generate high claims costs more accountable. Further, they suggest the proposed changes would provide an incentive for industry associations to play a more proactive role in managing fishing claims and in improving health and safety.

Because there are many different licenses, species and gear types, some stakeholders suggest it may be difficult to decide how fisheries would be grouped into specific classification units.

While most welcome better information on areas to improve health and safety, some stakeholders do not see the need to create classification units by gear type because they feel they are already aware of which segments of the industry have high accident rates.

## **Reply Form**

The WCB is interested in improving its data collection methods. To achieve this, the WCB is asking for stakeholder feedback on the proposed solution. Please consider the proposed classification units presented in the attached reply form and share your views with us by completing the form. Or, if you prefer to provide a written submission, please fax or mail it the Policy and Regulation Development Bureau.