Aon Risk Solutions
Specialties | People Risk

Workers' compensation mid-year update

2017

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Contents

"The workers' compensation landscape has never been as complex as it is today, with much uncertainty ahead for employers. More than ever, multi-jurisdictional employers are calling on their trusted advisors to piece together the fractured landscape and to articulate how best workplace risk can be managed. An unprecedented number of enquiries around self-insurance continues to dominate boardrooms and the call for a national workers' compensation scheme is back on the political agenda."

Gary McMullen, Director, People Risk, Aon Australia

National update

The workers' compensation market hardened for the first time in many years during the June 2017 renewal season. In the privately underwritten jurisdictions, employers with stable performance generally achieved a continuation of their expiring premium rates or a modest (i.e. <5%) rate increase. Typically premium rate reductions were only achieved in circumstances where the employer had demonstrated a material improvement in the risk profile / claims performance over the preceding twelve months.

The table below provides a breakdown of the rate movements by jurisdiction. Interestingly, the Australian Capital Territory (ACT) recommended average rate was reduced; however this was largely ignored by insurers who targeted this jurisdiction for rate increases due to increased common law claims activity.

Scheme Type	Jurisdiction	2016–17 Recommended Average Rate	2017–18 Recommended Average Rate	Changes	Movement Summary				
					Decrease		No Change	Increase	
					>5%	0–5%		0– 5%	>5%
Government Fund	Vic	1.272%	1.272%	0%	124	106	33	108	140
	NSW	1.400%	1.400%	0%	0	0	538	0	0
	SA	1.950%	1.800%	-8%	330	110	91	4	0
	Qld	1.200%	1.200%	0%	55	218	88	162	37
Privately Underwritten	WA	1.478%	1.525%	3%	80	59	29	95	215
	ACT	2.700%	2.580%	-4%	37	251	17	3	37
	NT	Not published							
	Tas	2.250%	2.270%	1%	27	79	31	265	104

The table demonstrates that the average rate movement across schemes is not applied uniformly to all of the classifications. Victoria is a good example where despite the average rate remaining unchanged, 94% of individual industry rates either increased or decreased with approximately half moving by more than 5%.

It is notable that of the Government Fund schemes; only South Australia (SA) provided premium rate relief to employers and that New South Wales (NSW) has left industry rates unchanged since 2014-15 despite moving from a deficit to position to a 123% funding ratio over this time.

Aon anticipates there will be premium rate increases in Tasmania of 3-6% when the Parliament passes legislation to remove the claims excess and increase the age limit for weekly benefits. The actual percentage increase will likely vary between insurers depending on whether they attempt to secure the required uplift over one or two years.

June 2017 also saw a notable increase in the number of clients changing insurers; Aon believes this was driven by two key factors being:

1. One of the 'big four' insurers undertaking a remediation of their portfolio.
2. An increased willingness of clients to adopt a split program following iCare's decision to appoint Employers Mutual Limited (EML) as the single claims agent for new claims in NSW from January 2018 (we go into more detail in our NSW updates).

New South Wales

In April 2017, iCare announced they would be moving to a single claims agent model in NSW and appointed EML to fulfil this function. QBE and CGU will exit the Scheme no later than 31 December 2017 with Allianz and GIO remaining as 'transition agents' until 31 December 2018 and 31 December 2019 respectively. iCare also announced they would introduce a new claims management model which, once finalised, will be supported by their new claims system which is expected to be operational in the first half of 2018. The new model is expected to provide employers with greater flexibility to manage their own claims within the first six weeks in the life of the claim.

There is still a lack of clarity as to how the transition to a single claims agent will be managed. It was initially announced that all new claims would be managed by EML from 1 January 2018, however iCare have already made concessions for large employers insured with Allianz and GIO, by allowing their transition to be delayed to 30 June 2018.

Following iCare's decision in April, the 'national carrier' solution is effectively broken and employers are now looking to choose the best provider in each jurisdiction and relying on their broker to provide account management services. This function was once undertaken by National Account Managers within Insurers/Agents.

NSW Self-insurance

Becoming a self-insurer in NSW has never been easier (or quicker) with the eligibility criteria far less onerous than other jurisdictions. We are experiencing a fast-track approval of new applications from mature employers, in as little as 3-5 months.

What employers need to know

Employers are experiencing higher levels of confusion due to the raft of changes being implemented. The majority of employers will have a new claims agent with different claims management structure/philosophy that may not meet expectations or align to the employers existing management systems. This may be compounded in 2018, once iCare introduces its new claims management model.

Victoria

The Victorian workers' compensation scheme remains stable in the absence of any major legislative changes. The average premium rate for 2017/18 is 1.272% of the State's ratable remuneration. This is a continuation of the average rate for the past two years and reflects a record low for Victoria. For the 2017-18 policy year, the claims reporting period or in other words - the claims that impact employers' premiums – are standard claims received between 1 January 2014 to 30 June 2016. This is a 'roll forward' from the prior year and was a change from WorkSafe's original transition plan to return to a three year experience period.

Our understanding is that WorkSafe Victoria still intends to push through with a three year claims experience period starting next policy year 2018-19, with at least three different scenarios being considered

1. 'Roll over' the 2.5 years:
   1 January 2015 to 30 June 2017.
2. Move to 3 years:
   1 January 2015 to 31 December 2017. This means that new claims received in the current policy period will impact the premium next year.
3. Move to 3 years:
   1 July 2014 to 30 June 2017. This means that new claims received in the current policy period will not impact the premium next year.

What employers need to know

These potential changes could have adverse financial implications if claims strategies are not aligned to the reporting period. Aon believes the biggest impact for employers, is if WorkSafe Victoria adopt option 2; this is a significant shift from prior years with new claims in the current policy period immediately impacting premium the following year. Whilst this has not been formally announced, Aon recommends that employers prepare for this scenario and ensure that a consistent financial claims management approach is adopted for every claim.

Queensland

The Queensland (QLD) workers' compensation scheme remains one of the most steady and consistent schemes in Australia. There have been no major changes to the scheme over the last year.

In the lead up to the 2017-18 renewals, which occurred on 30 June 2017, WorkCover Queensland announced that the average premium rate will be maintained at 1.20%. This ensures that QLD remains the lowest average premium rate across Australia.

What employers need to know

While there have not been any major changes in the QLD workers' compensation market, employers should consider that employers who pay their premium in full have previously benefited from a 3% discount on their premium. From 1 July, WorkCover will be increasing this discount to 5%. To take advantage of the 5% discount this year, employers need to declare wages by 31 August, and pay the premium in full by 16 September. For employers looking to take advantage of the new 5% discount, Aon can arrange a premium funding quote that will still allow the premium to be paid in monthly instalments. This will assist in managing large premiums and help to retain funds needed for business operating costs.

South Australia

The SA workers' compensation scheme, managed by ReturnToWorkSA (RTWSA), is expected to remain fully funded and is performing strong. This has allowed RTWSA to reduce the recommended rate from 1.95% in 2016-17 to 1.80% for 2017-18. This has been achieved off the back of the new legislation, South Australian Return to Work Act 2014 which became effective 1 July 2015.

On 1 July 2017 the new Retro Paid Loss (RPL) model was introduced, which is a positive change for large employers. To be eligible to qualify as a large employer, the employer's base premium must be at least $300,000, or at least $500,000 if you are a group of employers. The new RPL model is designed to provide an insurance option that has the right balance of risk and reward to complement the drive and capability of large employers, to positively influence their safety culture and claims experience.

These changes will make the new premium model a very attractive option for all eligible SA employers. In particular, for those employers who are high performers in safety and return to work, and want to pay a premium commensurate with their risk profile.

What employers need to know

For large employers that meet the threshold for RPL, Aon recommends employers to complete a formal feasibility study to quantify the savings and the risk / reward provisions essential for your balance sheet accrual. This will allow for employers to make an informed executive level decision on whether to proceed with the RPL model.

Current self-insurers in SA should also consider the RPL model. This approach may be a more viable insurance scheme moving forward as it removes some of the conditions of holding a self-Insurance licence such as bank guarantees and the various safety requirements required.

Work health and safety

Safe Work Australia National update

Safe Work Australia data indicates that whilst the fatality rate per 100,000 workers has decreased from 2.7 in 2003 to 1.6 in 2015, the overall rate of deaths resulting from falls from heights is not decreasing.

In one week in June 2017, three workers sustained injuries in falls from heights on construction sites across Sydney, including one fatality. Between January and May 2017, at least 13 construction workers were killed or seriously injured in falls. SafeWork NSW recently announced a safety crackdown on the construction industry. Inspectors will conduct planned and unannounced visits to construction sites across Sydney, and will show zero tolerance to workers being put at risk of serious or fatal injuries.

Victoria

The Occupational Health and Safety Regulations 2017, and Equipment (Public Safety) Regulations 2017 took effect on 18 June 2017 and replace the 2007 Regulations.

The changes relate to a broad range of risk areas including manual handling, noise, prevention of falls, confined spaces, plant, high risk work, hazardous and scheduled carcinogenic substances, asbestos, lead, construction, major hazard facilities, mines and licences. Employers are obliged to understand how the changes impact their work environments, workers and other people who may be affected by the business operations.

As a result of these changes, compliance codes and other resources are currently under review and are being progressively released. It is important to monitor these updates as employers are expected to adopt the relevant risk management methods in the codes, unless an equivalent or better solution is implemented.

Queensland

The Queensland Government has announced it will introduce a new criminal WHS offence of "negligence causing death", following findings of a best practice audit of work health and safety laws, procedures and policing. The decision follows public demand for tighter criminal laws with harsher penalties in response to the fatal incidents that occurred at Eagle Farm and Dreamworld in 2016.

It is anticipated that any changes will be applicable to companies, directors and workers. If this new offence is incorporated into the Work Health and Safety Act, significant changes to the legislation may be required.

How Aon can help

Aon has a dedicated team of subject matter experts across all jurisdictions and specialties, who can help you manage your people risk exposures in this unprecedented changing landscape.

Our team will help you navigate through the recent change, whether this be through increased focus on safety, transitioning to self-insurance or acting as your "Claims Strategist" on multi-jurisdictional exposures.

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About Aon

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