



Workers' compensation premiums in Western Australia

July 2009



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Workers' Compensation Premiums in Western Australia: July 2009

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Reference Documents

PricewaterhouseCoopers Actuarial Pty Ltd (April 2009)

Actuarial Assessment of the Recommended Premium Rates for 2009-10

Commonwealth of Australia, Department of Education, Employment and Workplace Relations, (2008)

Comparative Performance Monitoring Report (10th Edition)

Introduction

Workers' compensation insurance is compulsory for all employers in Western Australia. Workers' compensation insurance is underwritten in a competitive market by private insurers who are approved by WorkCover WA. There are currently ten insurers approved to underwrite workers' compensation insurance in Western Australia. Premium rates are based on the wages and claim experience of approved insurers (ie self-insurers are excluded).

Recommended premium rates are a guide to insurers and employers in setting actual premiums. Depending upon an individual employer's risk profile and past experience, insurers may discount the recommended premium rates by any amount, or surcharge (load the premium) to a maximum of 75% of the relevant recommended rate, before seeking approval from WorkCover WA to exceed this amount.

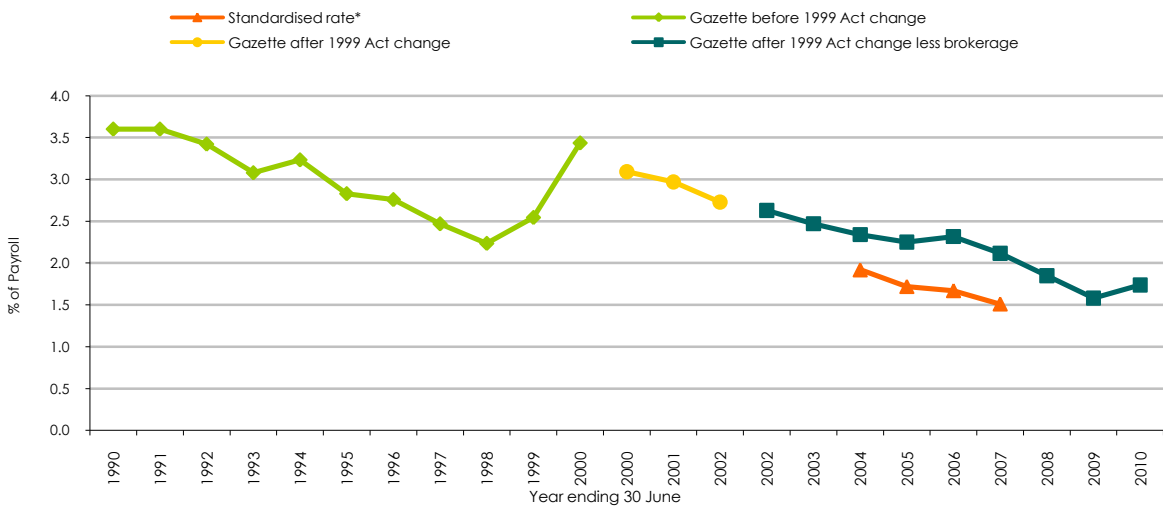
Recommended premium rates are based on actuarial assessments of the premium required to cover income lost, medical, allied health, rehabilitation and other payments associated with injuries to workers. The key factors in determining recommended premium rates are:

- . number of claims;
- . average size of claim;
- . insurer expenses and contingency margin; and
- . amount of remuneration (wages) paid by employers.

Recommended premium rates are expressed as a percentage of remuneration (wages). An average premium rate of 1.738% means, on average, employers pay a premium of \$1.74 for every \$100 of remuneration (wages) paid to their employees. Recommended premium rates are set annually for each industry class by WorkCover WA and are published in the Government Gazette and on the WorkCover WA website.

In addition to recommended rates WorkCover WA annually calculates the average actual premium rate. The average actual rate is total premiums paid as a percentage of total remuneration (wages) paid by employers in a given year. In 2007-08 the average discount applied to recommended premium rates (as calculated by the actuary) was 17.5%. However, It should be noted that the extent to which insurers discount against Gazetted rates is not factored into the setting of recommended premium rates.

Summary - Premium Rate Measures



*Average premium rates published in national comparisons are standardised to allow for differences between jurisdictional schemes.

	Page	Long term trend	Recent trend
P1.1 Average recommended premium rate (2009-10)	6	Decreasing ▼	Increasing ▲
P2.1 Average actual premium rate - approved insurers (2007-08)	7	Decreasing ▼	Decreasing ▼
P2.2 Discount on recommended premium rates (2007-08)	7	Increasing ▲	Decreasing ▼
P3.1 Standardised average premium rate (2006-07)	8	Decreasing ▼	Decreasing ▼
P4.1 Estimated net result - accident year (2007-08)	9	Decreasing since 2001-02 ▼	Decreasing ▼
P4.2 Underwriting result - financial year (2007-08)	9	Increasing since 1998-99 ▲	Decreasing ▼
P5.1 Loss ratio - approved insurers (2007-08)	10	Increasing since 2000-01 ▲	Increasing ▲
P5.2 Expense level (2007-08)	10	Increasing since 2001-02 ▲	Increasing ▲

Figures in brackets indicate the most recent year for which data is available.

Indicators in red are of particular interest.

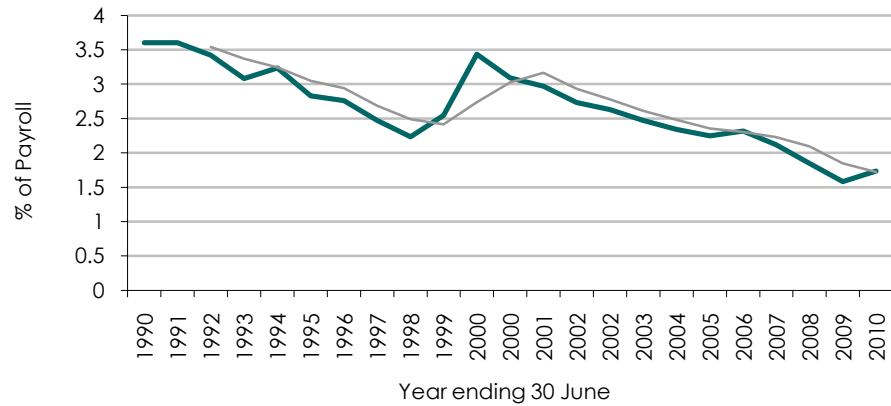
Average recommended premium rates

Recommended premium rates have reduced by 44% since 1999-00 (based on adjusted post-Act rates) and by 34% since 2001-02 (based on rates adjusted to exclude brokerage). The 1999 Act changes and high wage growth are the main drivers of these rate reductions.

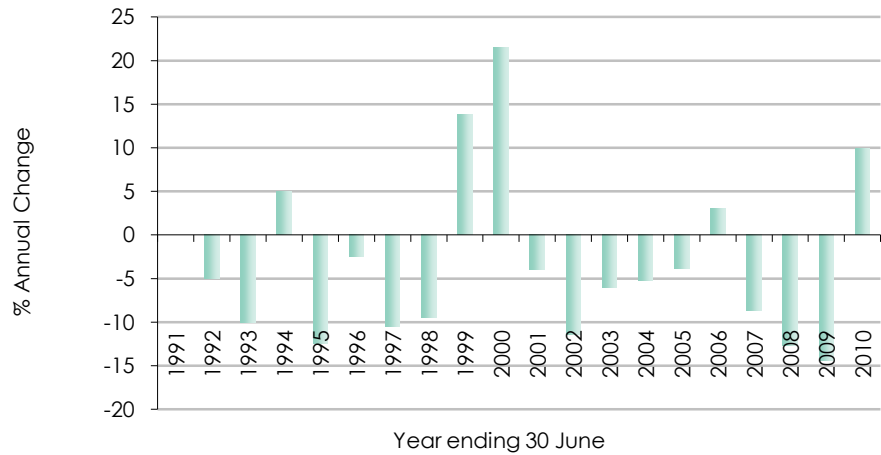
Recommended premium rates reduced in all but five of the last 20 years. The increase in 2006 was due to the projected impact of the 2004 Act reforms.

Indicator	2007-08 %	2008-09 %	2009-10 %
Recommended premium rate	1.85	1.58	1.74
Annual change	-12.7	-14.4	9.9

P1.1: Average recommended premium rate



P1.2: Annual Change in average recommended rate



Key driver	2008-09 premium rates	2009-10 premium rates	Change
Number of claims	37,213	38,361	3.1%
Average claim size \$	14,204	16,248	14.4%
Expense and margin loading	27%	33%	21.3%
Wageroll returned \$M	42,407	47,638	12.3%
Estimated incurred cost of claims \$	670.759	827.744	23.4%
Average premium rate	1.582%	1.738%	9.9%

These figures are obtained from the table on p. 3 of the actuarial report.

Trends are 3 year moving average

Average actual premium rates - approved insurers

There has been a long term downward trend in actual premium rates since the mid 1980s. Actual premium rates reduced by approximately 40% between 2001-02 and 2007-08. The 1999 Act changes and recent high wage growth are the main drivers of this rate reduction.

Actual industry rates are based on data returned by approved insurers.

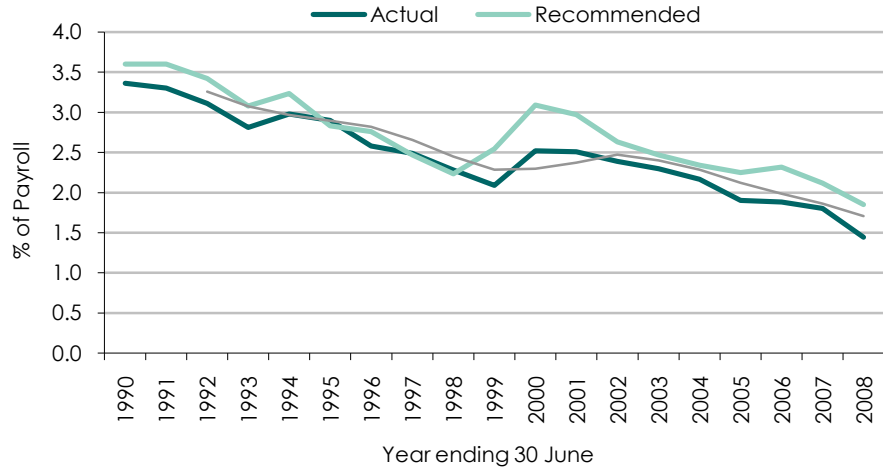
Actual premium rates reduced in all but two years between 1989-90 and 2007-08

Insurers have consistently discounted recommended premium rates. The discount level in 2006-07 was at a historical high of 24.1%

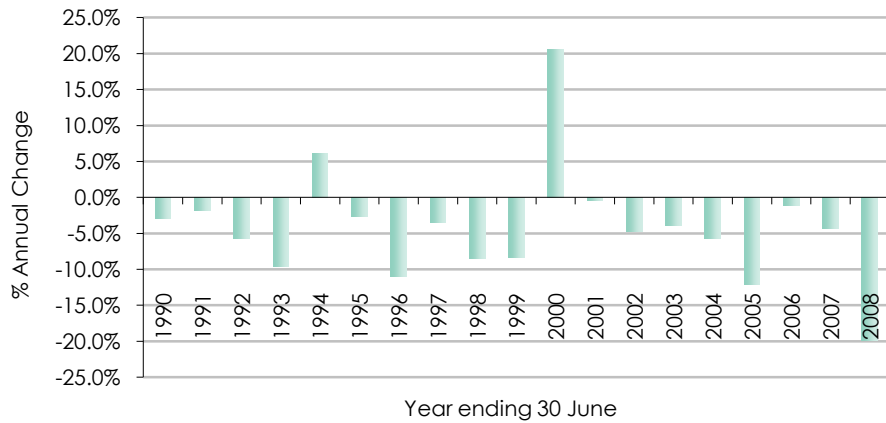
Discount level by insurers against Gazette. These figures are obtained from table B2.4 of the actuarial report.

Indicator	2005-06	2006-07	2007-08
	%	%	%
Average actual premium rate	1.88	1.80	1.44
Annual change	-1.2	-4.3	-19.9
Insurer discount	22.2	24.1	17.5

P2.1: Average actual premium rate



P2.2 Annual change in average actual rate



P2.3: Annual discount on recommended premium rates



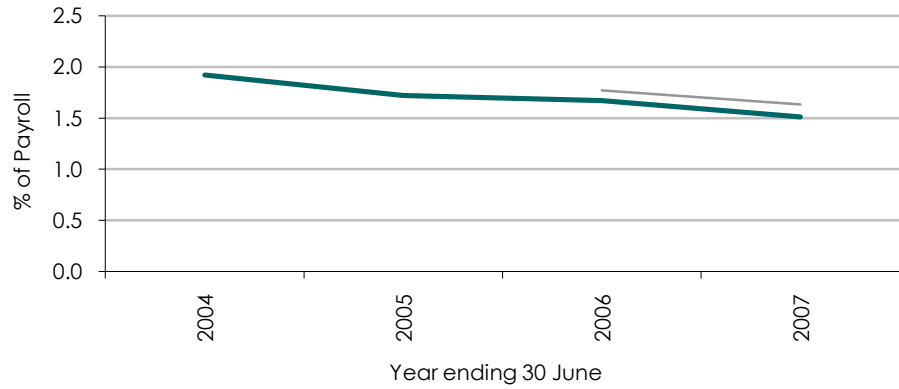
Trends are 3 year moving average

National comparisons

The WA standardised premium rate has fallen 21% over the period 2003-04 to 2006-07 (standardised rates for 2007-08 are not yet available.)

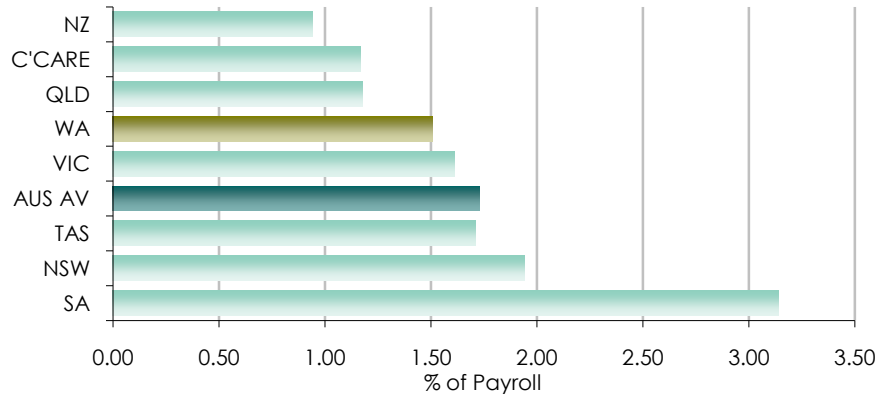
Indicator	2004-05	2005-06	2006-07
	%	%	%
WA standardised average premium rate	1.72	1.67	1.51
National standardised average premium rate	2.05	1.96	1.73

P3.1: Standardised average premium rate WA



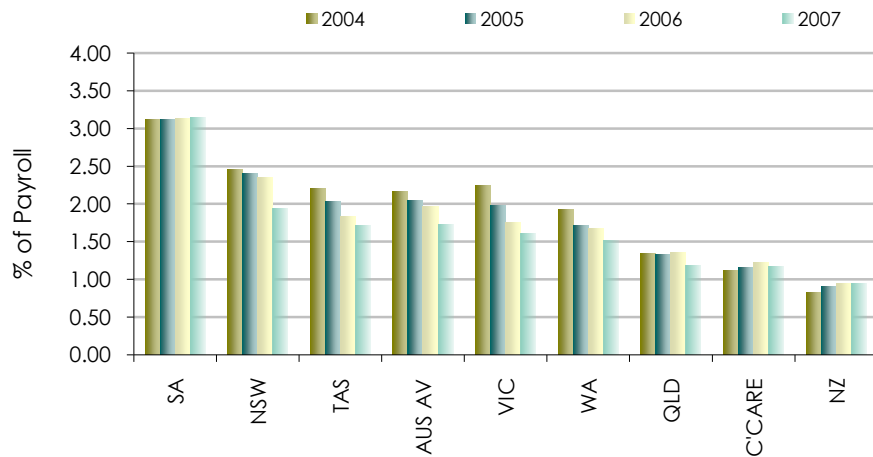
WA standardised premium rates were the third lowest across the Australian jurisdictions, after Comcare and Queensland.

P3.2: Standardised average premium rate - 2006-07



Standardised premium rates for WA have consistently been below the national average during the period 2003-04 to 2006-07 .

P3.3 Standardised average premium rates



Standardised rates adjust for differences in scheme design including coverage and excess arrangements. These figures are obtained from the Comparative Performance Monitoring Report.

Estimated net result & underwriting result

Estimated net result represents incurred cost plus expenses, less investment return on provisions, as a proportion of premium income. The estimated net result is calculated by accident year.

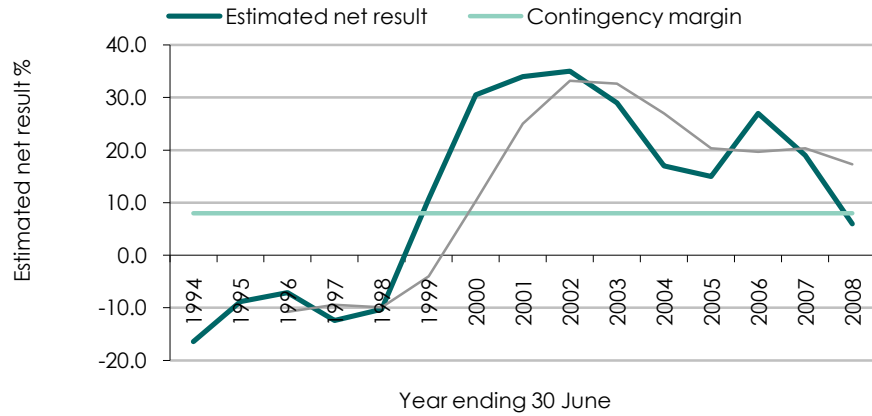
These figures are obtained from table 3.1.3 (a) of the actuarial report, and involve a material level of estimation uncertainty, particularly for the four most recent accident years.

Gross earned premium reflects the discount on Gazetted rates, however, it should be noted that the extent to which insurers discount Gazetted rates is not factored into the setting of recommended premium rates.

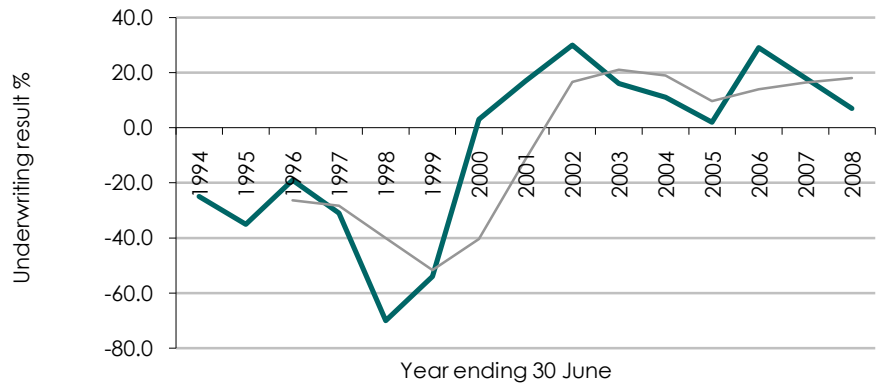
The underwriting result represents claim payments and change in outstanding estimate, less commission and other expenses, as a proportion of gross earned premium. No allowance is made for insurers' investment income. These figures are obtained from table 3.1.3 (b) of the actuarial report.

Indicator	2005-06 %	2006-07 %	2007-08 %
Estimated net result as % of gross earned premium	27.00	19.00	6.00
Underwriting result as % of gross earned premium	29.00	18.00	7.00

P4.1: Estimated net result - accident year



P4.2: Underwriting result - financial year



Trends are 3 year moving average

Loss ratios and expense level

The scheme loss ratio indicates that 81% of insurers' income was required to cover estimated incurred costs for 2007-08.

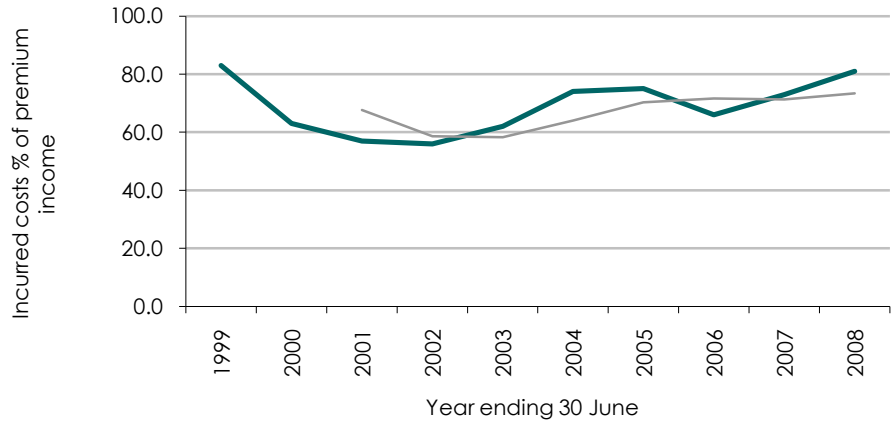
Incurred costs as % of premium income. These figures are obtained from table 3.1.3 (a) of the actuarial report, and involve a material level of estimation uncertainty, particularly for the four most recent accident years.

In recent years insurers' expenses have averaged approximately 18% of premium income.

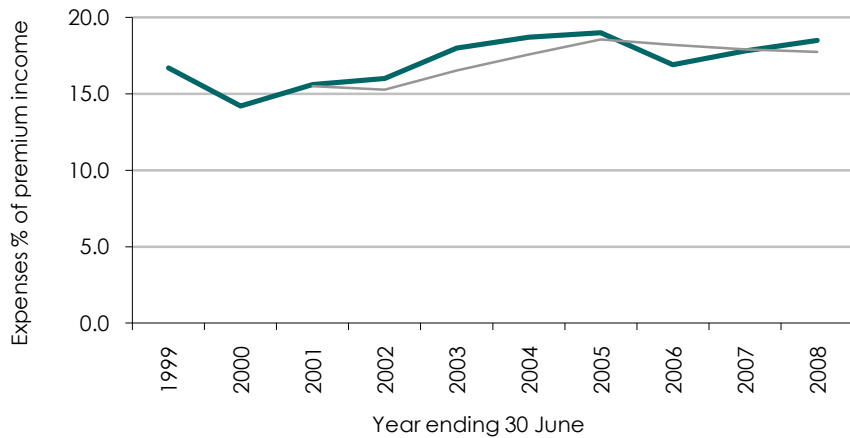
Expenses as % of premium income. These figures are obtained from table B2.4 of the actuarial report.

Indicator	2005-06 %	2006-07 %	2007-08 %
Loss ratio	66.0	73.0	81.0
Expense level	16.9	17.8	18.5

P5.1: Loss ratio - approved Insurers



P5.2: Expense level



Trends are 3 year moving average

Industry trends

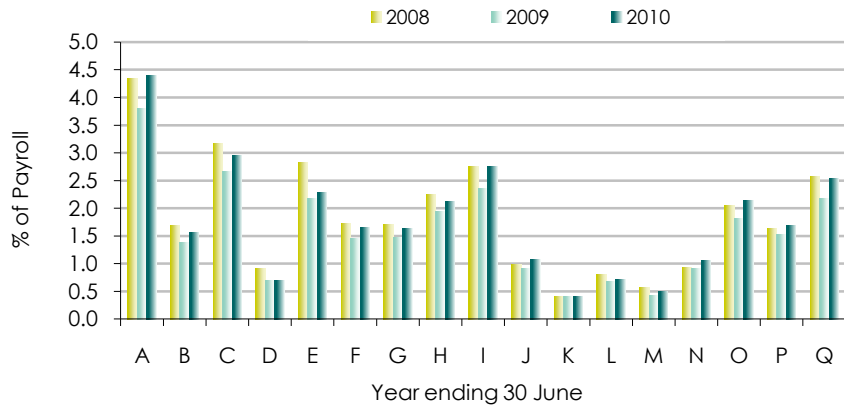
All Western Australian industries have experienced increases in recommended premium rates for 2009-10, except Finance and Insurance which remained the same as last year.

Communication Services and Health and Community Services had the highest overall increase in average recommended premium rate between 2008-09 and 2009-10

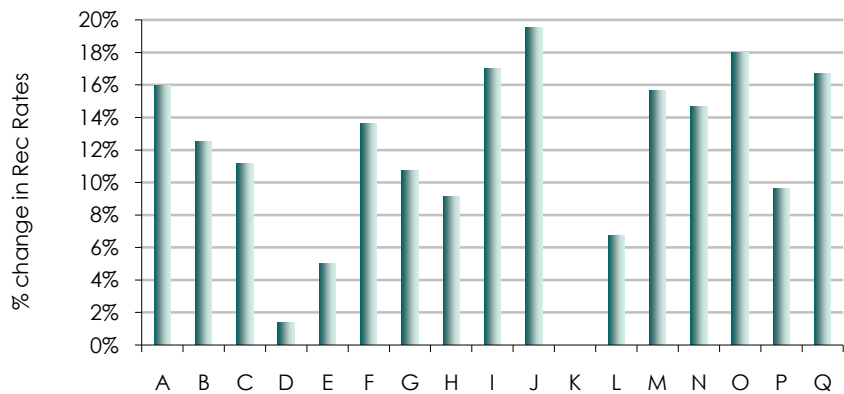
- A Agriculture, Forestry, & Fishing
- B Mining
- C Manufacturing
- D Electricity, Gas & Water Supply
- E Construction
- F Wholesale Trade
- G Retail Trade
- H Accom, Cafes & Restaurants
- I Transport & Storage
- J Communication Services
- K Finance & Insurance
- L Property & Business Services
- M Government Administration
- N Education
- O Health & Community Services
- P Cultural & Recreational Services
- Q Personal & Other Services

Actual industry rates are based on data returned to WorkCover WA by approved insurers.

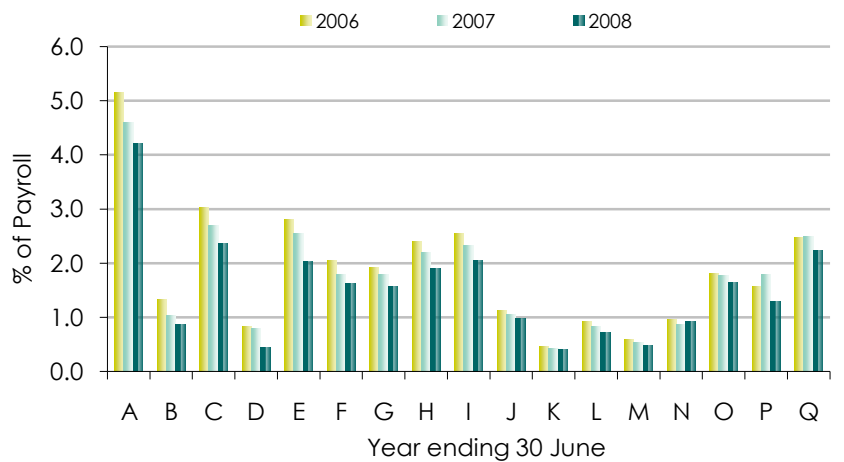
P6.1: Recommended premium rates - industry



P6.2: Change in industry recommended rates - 2008-09 to 2009-10



P6.3: Actual premium rates - Industry



- 1 Due to the dynamic nature of workers' compensation claims, the interpretation of data contained within this report (the data) must be undertaken with some caution. Data users are cautioned to consider carefully the provisional nature and estimation uncertainty of the data before using it for decisions that concern personal or public safety or the conduct of business that involves substantial monetary or operational consequences.
- 2 The accuracy or reliability of the data is not guaranteed or warranted in any way. WorkCover WA has made a reasonable effort to ensure the data is up to date, accurate, complete and comprehensive at the time of disclosure. This data reflects data reported to this agency by insurers for the reporting periods indicated. Data users are responsible for ensuring by independent verification its accuracy, currency or completeness.
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- 6 The above limitations apply equally to the source reference documents. In addition, the specific limitations and restrictions in those documents also apply.