



Workers' compensation premiums in Western Australia

July 2011

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Reference Documents

PricewaterhouseCoopers Actuarial Pty Ltd, (April 2011)
2011/12 Recommended Premium Rates Report.

Commonwealth of Australia, Safe Work Australia, (2010)
Comparative Performance Monitoring Report (12th 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 eight insurers approved to underwrite workers' compensation insurance in Western Australia. Premium rates are based on the wages and claim experience of approved insurers and the Insurance Commission of Western Australia (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.

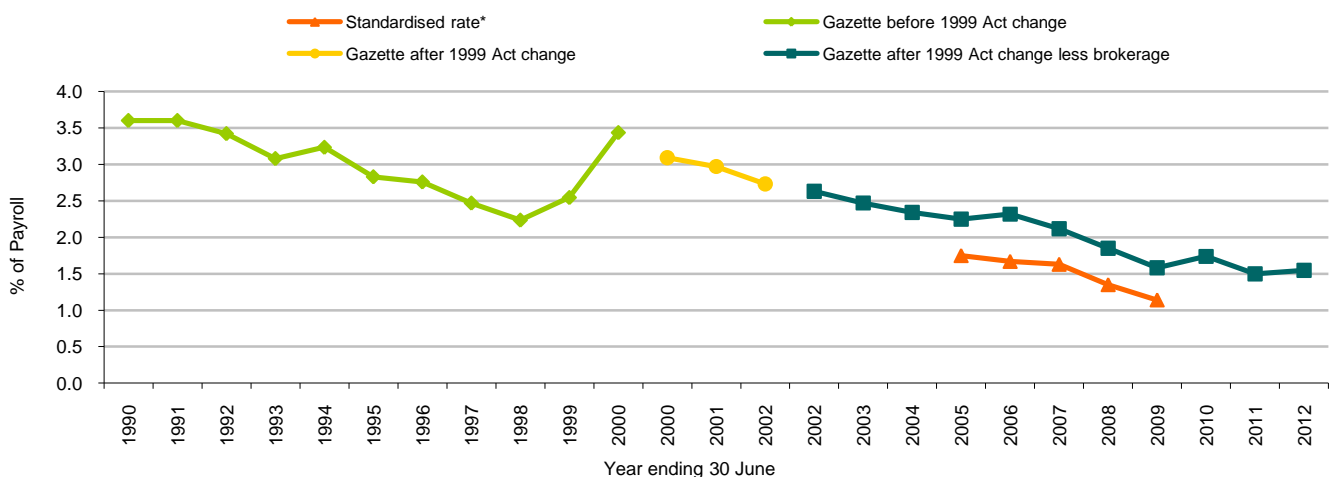
Recommended premium rates are based on actuarial assessments of the premium required to cover income lost, medical, allied health, rehabilitation and other payments associated with work related injuries and diseases. The key factors in determining recommended premium rates are:

- number of claims;
- average size of claims;
- 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 1.547% means, on average, employers pay a premium of \$1.55 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 2009/10 the average discount applied to recommended premium rates (as calculated by the actuary) was 16.2%. 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.

Indicators

Premium rates of WA workers' compensation system

	Page	Current reporting year	Previous reporting year	% change from previous year	Four year average	Four year trend [^]
Average recommended premium rate (2011/12)	6	1.547%	1.497%	3.30%	1.591%	■
Average actual premium rate - approved insurers (2009/10)	7	1.38%	1.37%	0.79%	1.55%	▼
Discount on recommended premium rates (2009/10)	7	16.2%	9.8%	65.3%	15.5%	▼
Standardised average actual premium rate (2008/09)	8	1.14%	1.35%	-15.6%	1.45%	▼

Financial performance of WA workers' compensation system

	Page	Current reporting year	Previous reporting year	% change from previous year	Four year average	Four year trend [^]
Estimated net result - accident year (2009/10)	9	5.0%	3.0%	66.7%	8.8%	▼
Underwriting result - financial year (2009/10)	9	8.0%	7.0%	14.3%	10.0%	▼
Loss ratio - approved insurers (2009/10)	10	86.0%	88.0%	-2.3%	81.8%	▲
Expense level (2009/10)	10	18.0%	17.6%	2.3%	18.0%	■

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

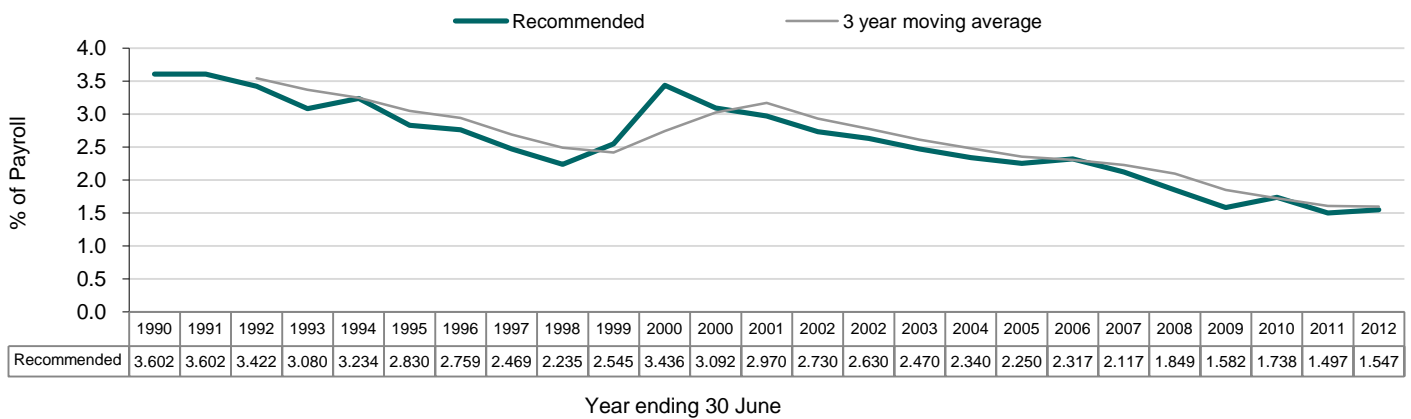
[^]Legend for four year trend: ▲ Increasing ■ Stable ▼ Decreasing

Average recommended premium rates

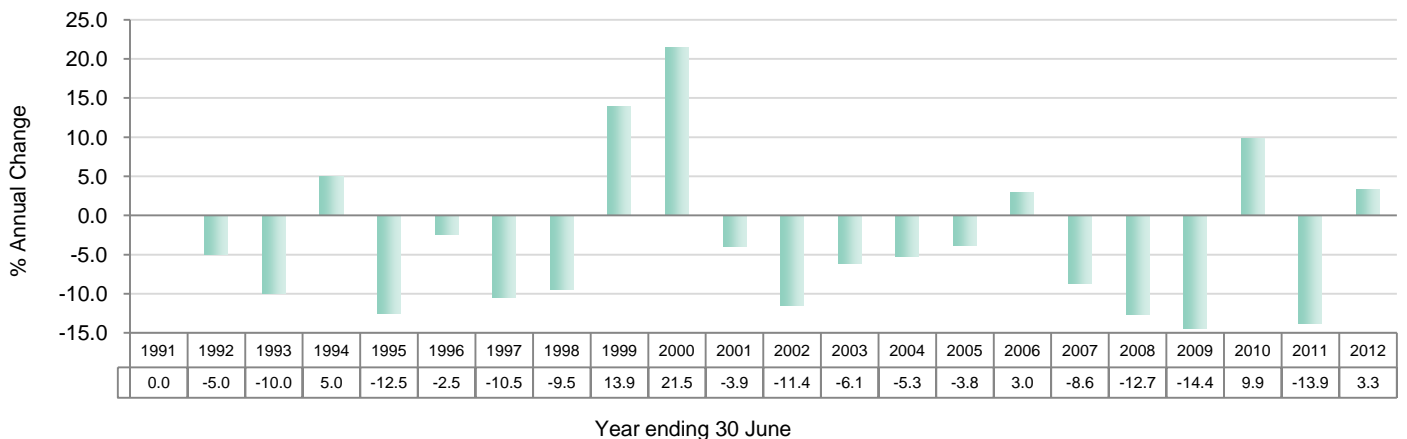
Summary:

- Recommended premium rates have reduced by 50% since 1999/00 (based on adjusted post-Act rates) and by 41% 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 six of the last 22 years. The increase in 2005/06 was due to the projected impact of the 2004 Act reforms, while the 2009/10 increase was in response to the effects of the global financial crisis.
- The 3.3% increase in 2011/12 recommended premium rate was driven by an increase in claim costs.

1.1: Average recommended premium rate



1.2: Annual change in average recommended rate



1.3: Key premium rating drivers

Key driver	2010/11 premium rates	2011/12 premium rates	Change
Risk cost of claims \$m *	624.74	687.04	10.0%
Expense and margin factor	32%	32%	-0.9%
Wageroll returned \$M	54,917	58,419	6.4%
Estimated incurred cost of claims \$M	822.02	904.00	10.0%
Average premium rate	1.497%	1.547%	3.3%

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

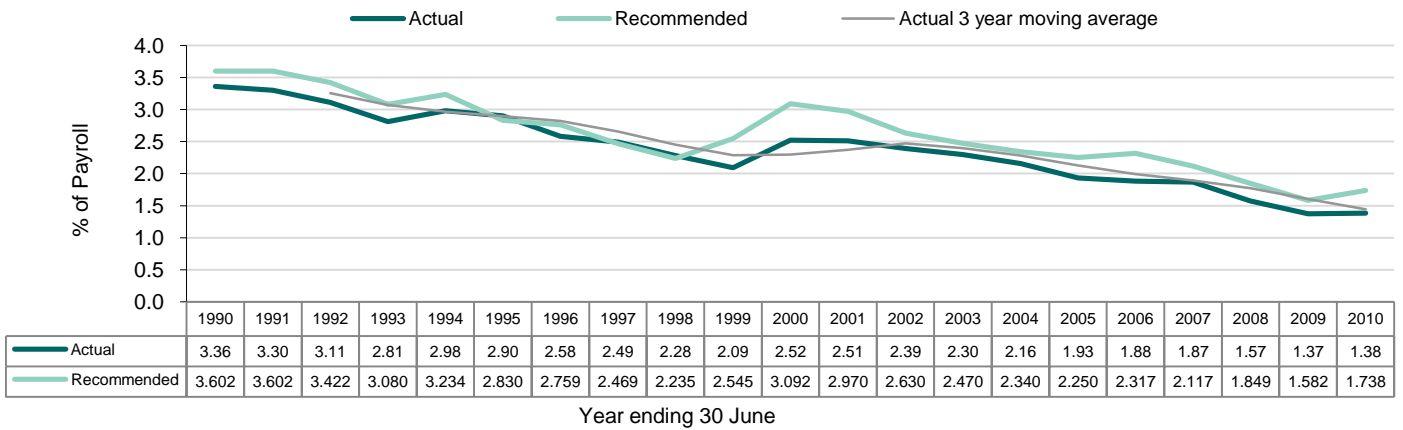
* number of claims incurred multiplied by average claim size

Average actual premium rates - approved insurers

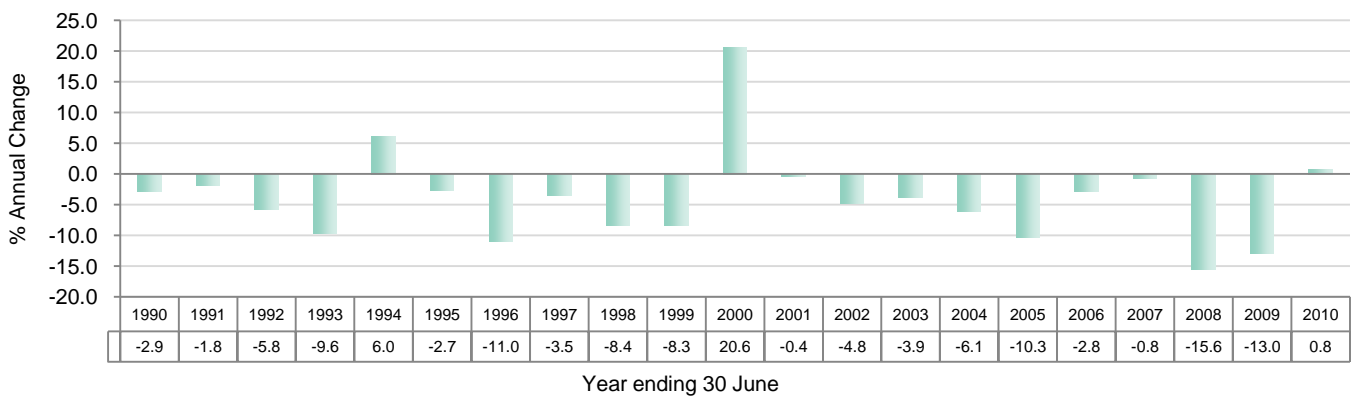
Summary:

- Actual premium rates are based on data returned by approved insurers. There has been a long term downward trend in actual premium rates since the mid 1980s. Actual premium rates reduced by approximately 42% between 2001/02 and 2009/10. The 1999 Act changes and high wage growth are the main drivers of this rate reduction.
- Average actual premium rates reduced in all but three years between 1989/90 and 2009/10. In 2009/10, the average actual premium rate increased by 0.8%.
- Insurers have consistently discounted recommended premium rates. The discount level in 2005/06 was at a historical high of 20.1% and in 2009/10, the discount level was at 16.2%. It should be noted that the discount level is an approximation only and involves a material level of estimation uncertainty. These figures are obtained from table H1.4 on p.152 of the recommended premium rates report and is similar to previous actuarial reports.

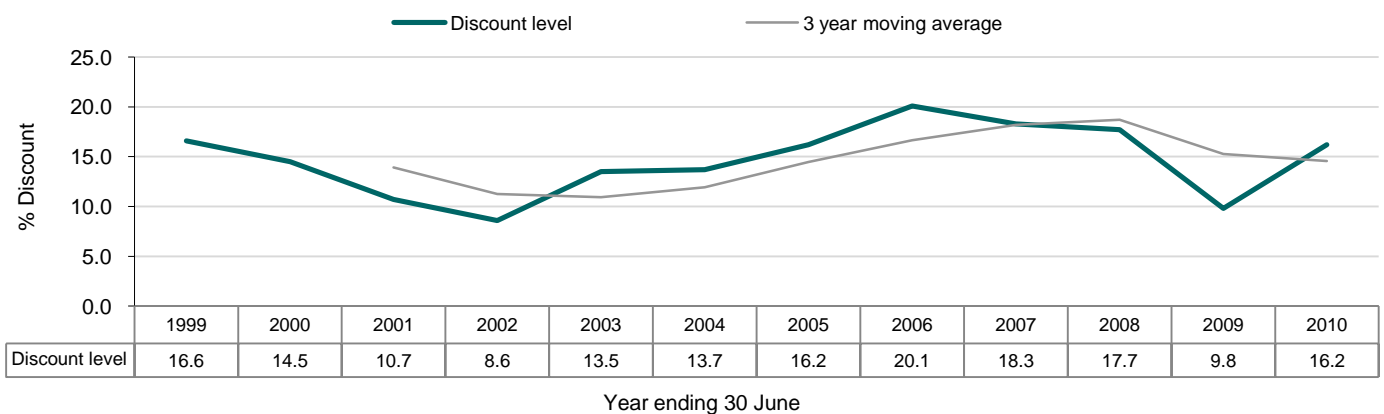
2.1: Average actual premium rate



2.2 Annual change in average actual premium rate



2.3: Annual discount on recommended premium rates

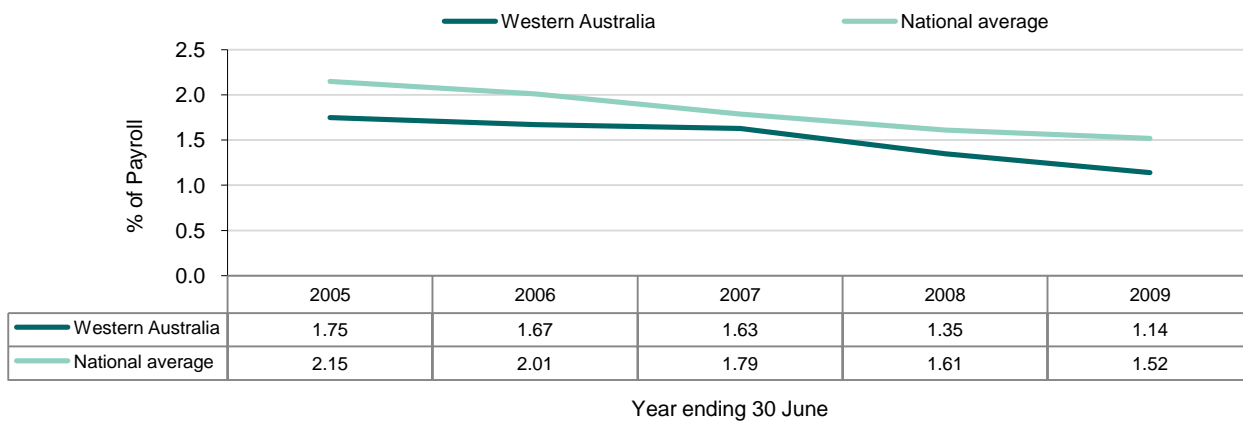


National comparisons

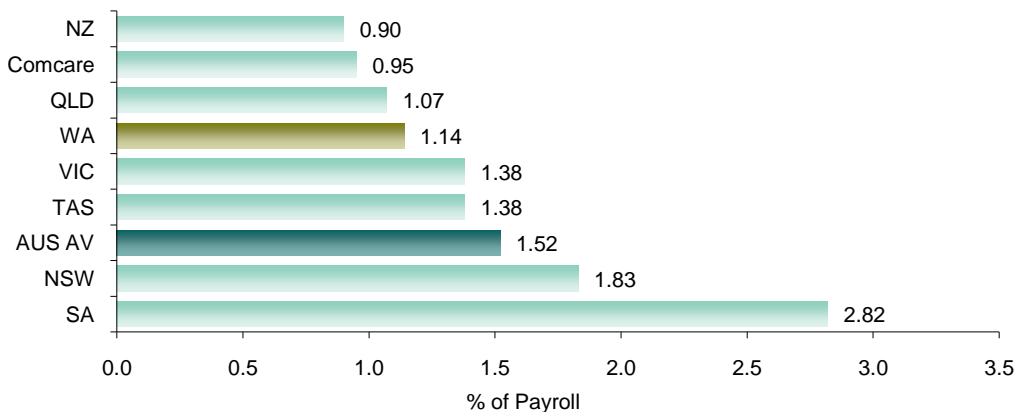
Summary:

- Standardised average actual premium rates adjust for differences in scheme design including coverage and excess arrangements to enable more accurate jurisdictional comparisons. These figures are obtained from the Comparative Performance Monitoring Report.
- The standardised premium rate for WA has fallen 34.9% over the period 2004/05 to 2008/09 (standardised rates for 2009/10 are not yet available). During the same period, while the overall Australian average continues to decrease, the WA standardised premium rates have consistently been below the national average.
- WA recorded the third lowest standardised average premium rate in 2008/09 across the Australian jurisdictions, after Comcare and Queensland.

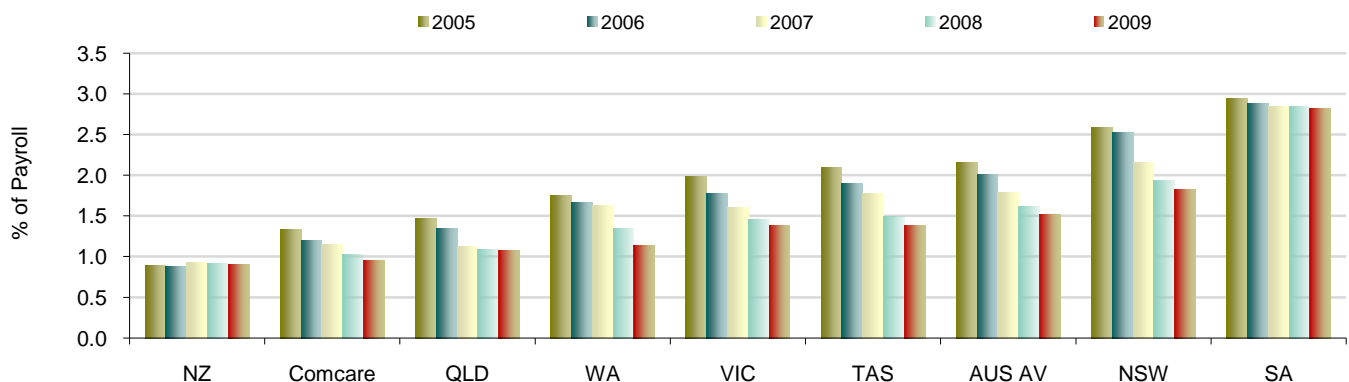
3.1: Standardised average actual premium rate - WA



3.2: Standardised average actual premium rate - 2008/09



3.3 Standardised average actual premium rates

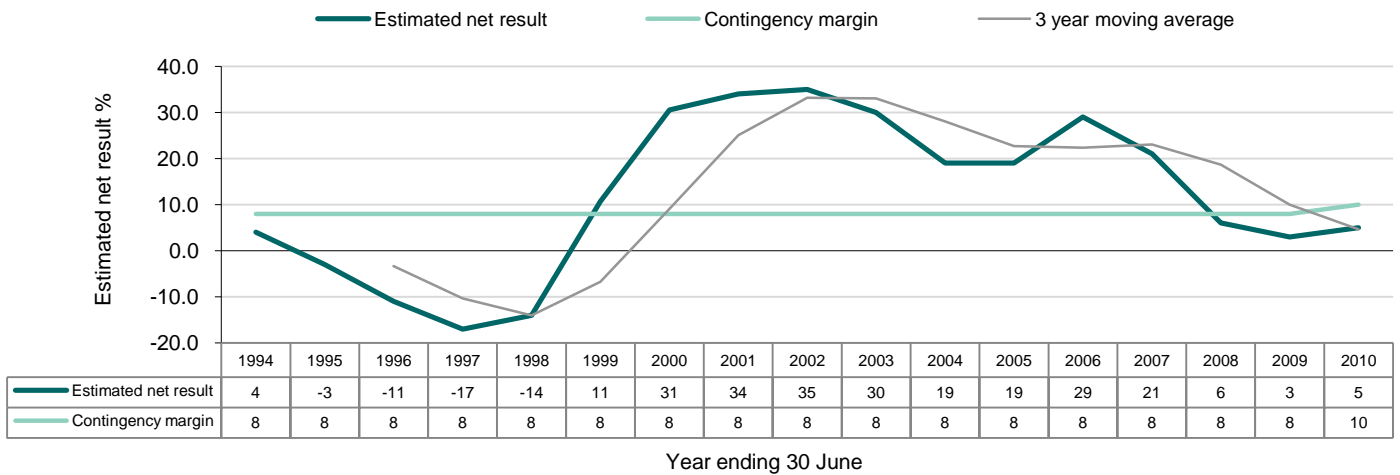


Estimated net result & underwriting result

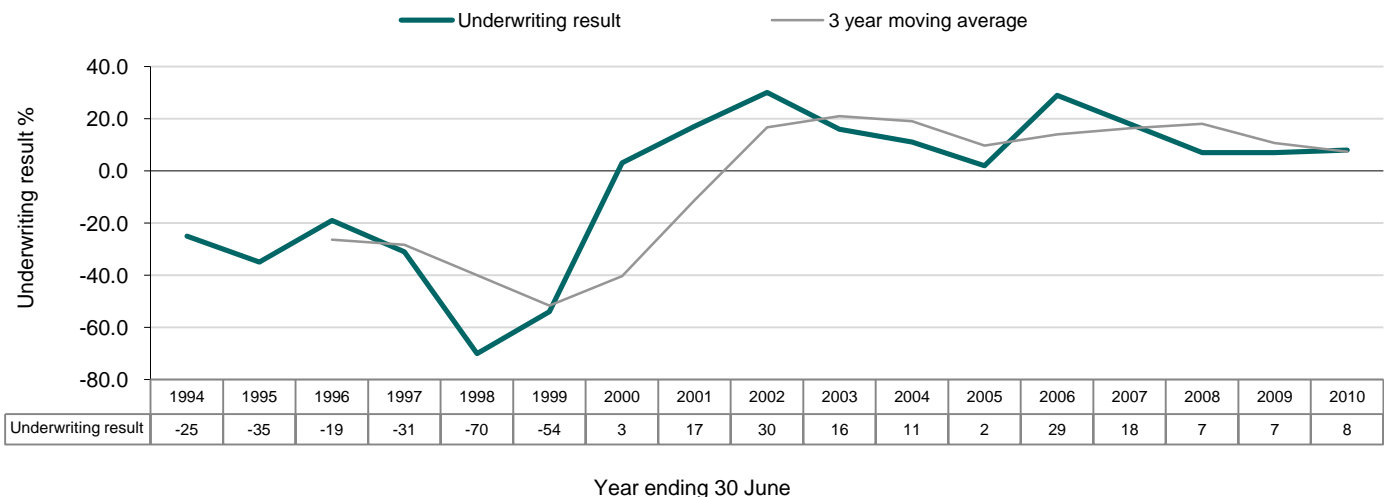
Summary:

- Estimated net result represents gross earned premium less incurred claim cost, commission and other expenses, plus investment return on provisions, as a proportion of premium income. The estimated net result is calculated by accident year and these figures are obtained from table 2.5.1 on p.15 of the actuarial report.
- From accident year 1999/00 to 2006/07, the estimated net results were well in excess of the 8% contingency margin adopted in previous recommended premium rates. However, it should be noted that figures prior to 2003 have not been updated. From 2007/08 to 2009/10, the estimated net results are ranging from 3% to 6% of premium income. From the 2009/10 recommended premium rates onwards, the contingency margin increased to 10%. It should be noted that the calculation of estimated net result involves 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 gross earned premium, less claim payments, change in outstanding estimate, commission and other expenses (no allowance is made for insurers' investment income), as a proportion of gross earned premium. These figures are obtained from table 2.5.2 on p.17 of the recommended premium rates report.
- Overall underwriting result is equal to 12% of gross earned premium over the seven year period from 2003/04 to 2009/10. Between 2007/08 and 2009/10, the underwriting results are relatively stable, ranging from 7% to 8%.

4.1: Estimated net result - accident year



4.2: Underwriting result - financial year

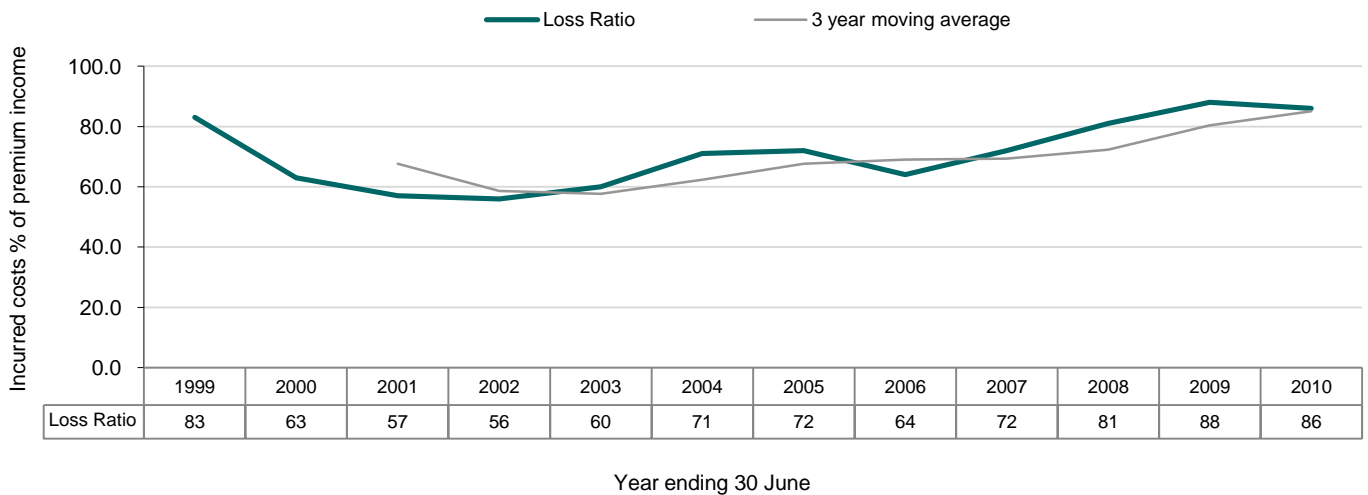


Loss ratios and expense level

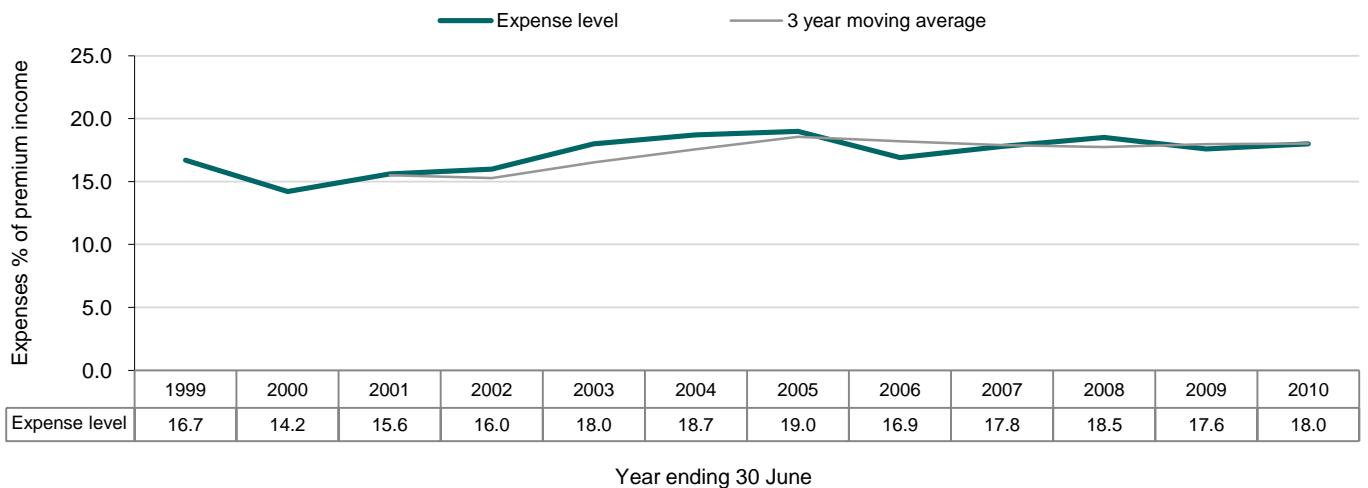
Summary:

- Loss ratio represents incurred claim costs as a proportion of premium income. These figures are obtained from table 2.5.1 on p.15 of the actuarial report. The incurred claim costs (including brokerage) involve a material level of estimation uncertainty, particularly for the four most recent accident years.
- Expense level represents total expenses (include brokerage) as a proportion of premium income. These figures are obtained from table H1.4 on p.152 of the actuarial report.
- In 2009/10, total expense level increased to 18.0% from 17.6% in the previous year. In recent years, the insurers' expense level has been relatively stable at around 18% of premium income.

5.1: Loss ratio - accident year



5.2: Expense level - financial year

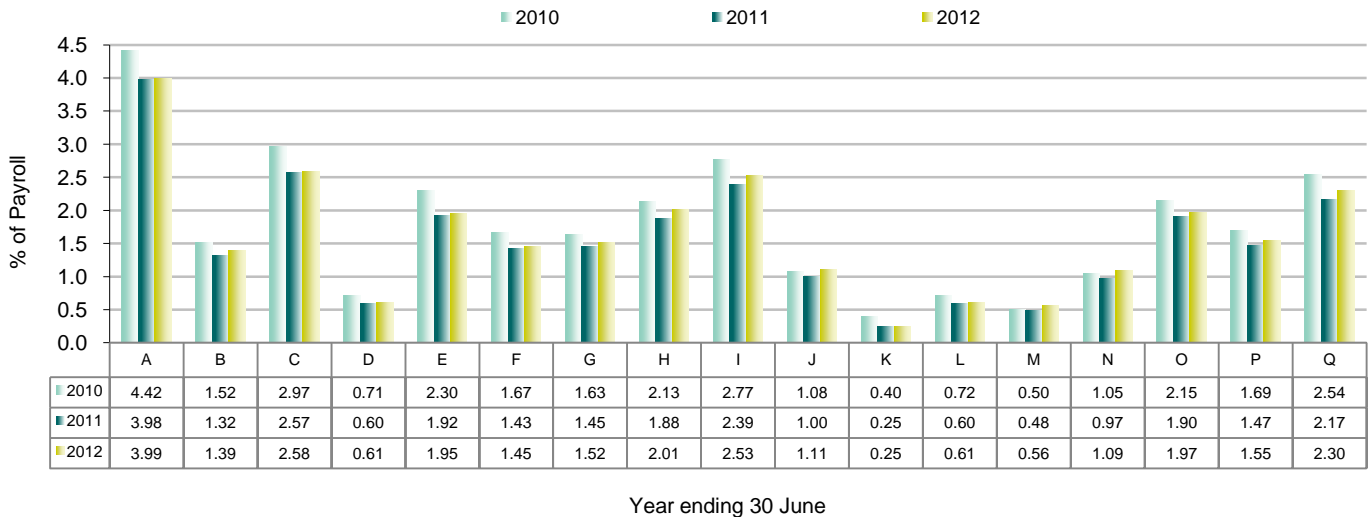


Average recommended premium rates - Industry trends

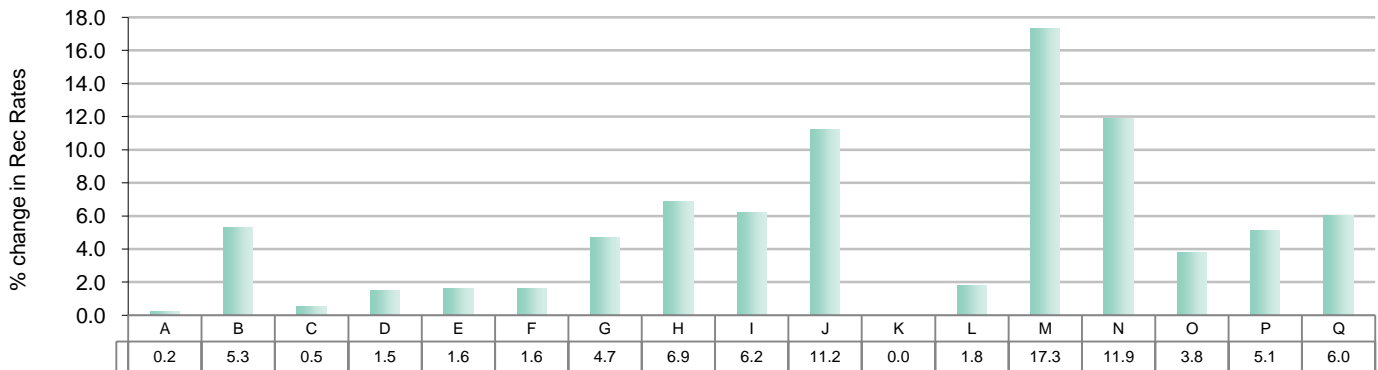
Summary:

- Average recommended premium rate at industry level figures are obtained from table 2.2 on p.12 of the actuarial report.
- From Indicator 6.2, the majority of Western Australian industries experienced increases in recommended premium rates for 2011/12, with the exception of Finance & Insurance.
- Government Administration had the largest increase (17.3%) in average recommended premium rate between 2010/11 and 2011/12. The relatively large increase in this division was due to an increase in claim costs relative to wages. However, the Government Administration industry has a relatively low recommended rate of 0.56% for 2011/12.

6.1: Average recommended premium rates - industry



6.2: Change in industry average recommended rates - 2010/11 to 2011/12



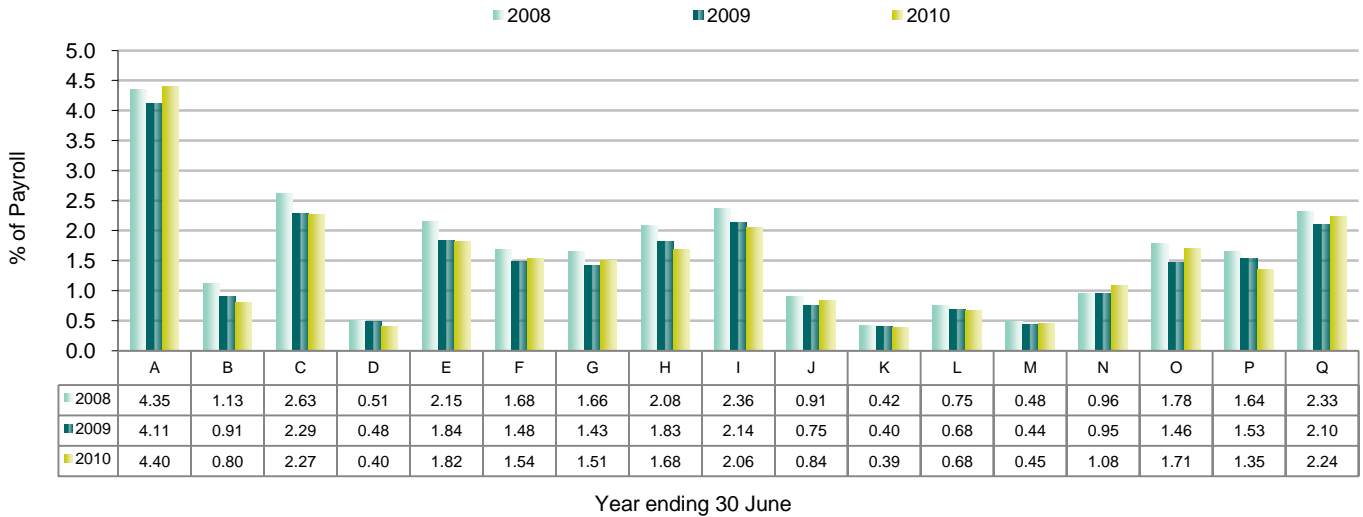
- | | |
|------------------------------------|------------------------------------|
| A Agriculture, Forestry, & Fishing | J Communication Services |
| B Mining | K Finance & Insurance |
| C Manufacturing | L Property & Business Services |
| D Electricity, Gas & Water Supply | M Government Administration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

Average actual premium rates - Industry trends

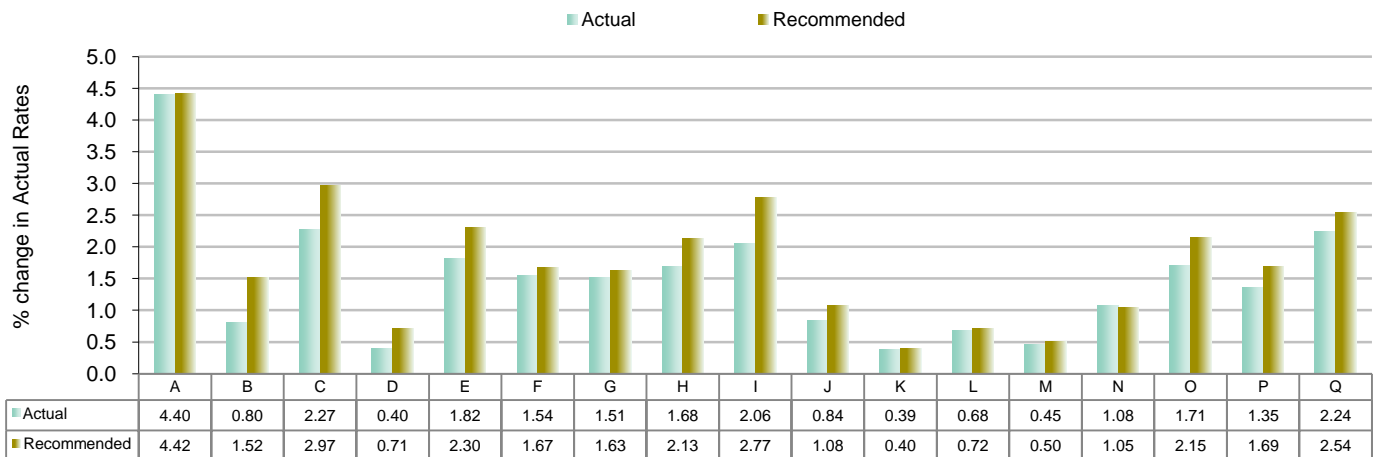
Summary:

- Actual industry premium rates are based on data returned to WorkCover WA by approved insurers.
- In 2009/10, all Western Australian industries had a lower average actual premium rate compared to the associated industry recommended premium rate, with the exception of the Education industry. The actual premium rate for the Education industry was 1.08% in 2009/10, which was slightly higher than the recommended rate of 1.05%.

6.3: Actual premium rates - Industry



6.4: Actual premium rates by industry - 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

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