



Submission

Operation of Queensland's Workers Compensation Scheme

3 August 2012

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Executive Summary

Aon Hewitt (Aon) is the global leader in human resource consulting and outsourcing solutions and represents a significant number of Queensland employers who hold workers compensation policies with WorkCover Queensland or are self-insured under the *Workers Compensation and Rehabilitation Act 2003*.

Over the past five years, the Aon People Risk Solutions practice has partnered with these employers to solve their most important human resources and business challenges, including workers compensation. Aon regularly hear client's feedback regarding WorkCover Queensland and the workings of the scheme.

Aon believes that the most effective workers compensation systems provide something for all stakeholders being:

- Protection of workers through timely and accurate delivery of benefits;
- Proactive injury management and return to work strategies;
- Cost effective premiums for employers;
- Transparency of cost drivers;
- Service capability aligned to employer needs; and
- Innovation to ensure that the workers compensation system continues to improve outcomes for all stakeholders.

Flexibility and competition drive innovative solutions in most business operations, and workers compensation is no different. Aon believes that the WorkCover monopoly arrangements currently in place in Queensland are no longer adequate to meet the needs of modern industry, and advocate for the inclusion of multiple agents. Aon recommends that the Parliamentary Committee consider the option to privatise workers compensation insurance or, alternatively, introduce competition into the scheme by outsourcing a range of WorkCover's current functions to agents as occurs in NSW, Victoria and South Australia.

Aon also advocate for more flexibility with regards to workers compensation premium structures similar to the Retro Paid Loss arrangements that have been introduced in New South Wales and South Australia. We also recommend that the 2,000 minimum employee restriction be removed from self-insurance provisions to allow employers to pursue self-insurance based on their ability to meet financial viability and Q-COMP mandated 'fit and proper employer' criteria.

Introduction

Aon provides a range of workers compensation services to clients across all Australian jurisdictions, with national and state clients operating in the Queensland workers compensation environment.

This range of services includes strategic planning and performance improvement plans, placement of policies in the privately underwritten environments, premium reviews and forecasting, injury and claims management reviews, self-insurance feasibility studies and general specialist advice in relation to other workers compensation matters.

Our experience indicates that many of our national clients, as Queensland employers, would appreciate the opportunity to have their Queensland workers compensation program managed by their current interstate agent as opposed to WorkCover. This would allow them to leverage knowledge gained from other states to provide innovation to their operations and would assist to improve outcomes.

Committee Terms of Reference

Aon wish to provide comments on the WorkCover scheme from the perspective of the current scheme's impact on our clients. We will confine our commentary to the following points that the committee is required to consider:

- the performance of the scheme in meeting its objectives under section 5 of the Act;
- how the Queensland workers compensation scheme compares to the scheme arrangements in other Australian jurisdictions;
- whether the current self-insurance arrangements legislated in Queensland continue to be appropriate for the contemporary working environment.

The performance of the scheme in meeting its objectives under Section 5 of the Act

One of the key objectives of the *Workers Compensation and Rehabilitation Act 2003* that has been overlooked since the Act was promulgated in 2003 is Section 5(4)(e) which requires that the workers compensation scheme 'provide for flexible insurance arrangements suited to the particular needs of industry'. This wording mirrored a similar provision in the WorkCover Queensland Act 1996.

Since the establishment of the scheme, this 'flexibility' has been restricted to employers insuring with WorkCover or its predecessors under the premium formula of the particular time (currently the Experience Based Rating formula) or through self-insurance.

No other arrangement has been available to Queensland employers. The restrictive self-insurance criteria established under the 2003 Act will be addressed later in this submission.

Aon considers that this provision of the Act has been largely ignored since the establishment of the Workers Compensation Board of Queensland and its successor, WorkCover Queensland.

Since workers compensation insurance became compulsory in Queensland, the scheme has operated as a monopoly with a single public insurer performing all insurer functions.

Aon considers that greater competition would assist in providing greater flexibility to employers and assist in improving scheme performance. A number of insurers and agents utilize knowledge gained from their international operations to provide innovation to their Australian operations, thus bringing international expertise to assist in improving outcomes. In addition, competition in other states has been a catalyst for insurers to provide greater education to employers of the pre and post injury management systems needed to improve workers compensation outcomes.

How the Queensland scheme compares to the scheme arrangements in other Australian jurisdictions

Aon considers that the Queensland scheme is highly restrictive in comparison to most Australian workers compensation jurisdictions. Australian state and territory workers compensation arrangements are evenly split between 'managed fund' and 'privately underwritten' environments.

In the other 'managed fund' environments (New South Wales, Victoria & South Australia), licensed private sector insurers act as agents for the central fund, providing functions such as claims management, injury management, premium assessment and collection. The WorkCover equivalents in those jurisdictions are responsible for underwriting, fund management and premium setting.

Examples of other flexible arrangements in those jurisdictions include:

- Hotel Employers Mutual and Clubs Employers Mutual provides specialized workers compensation insurance at discounted rates to members in New South Wales
- Catholic Church Insurances Limited which provides specialized workers compensation insurance to church and religious institutions in New South Wales
- Racing New South Wales which operates a specialized workers compensation insurance scheme to the racing industry in New South Wales
- Coal Mines Insurance Pty Ltd (CMI) which operates a specialized workers compensation insurance scheme to the coal mining industry in New South Wales
- Australian Hotels Association (Victoria) WorkCover scheme where members receive specialized service from a dedicated VWA agent at no additional cost
- 'Retro Paid Loss' schemes introduced in NSW (2009) and South Australia (2012) where an employer's annual premium more closely reflects their individual claims experience and success in injury prevention and management and return to work over a period of years. This scheme provides another option of premium structure to employers and allows employers to take on some of their risk. It is this transfer of risk from the insurer to the employer that drives innovative claims management, and ultimately improved outcomes for both employers and workers.

Agent remuneration in these jurisdictions is linked to KPI's established by the regulator, providing an opportunity to benchmark Agent performance which in turn, creates an environment that drives behaviours that are outcome focused.

The introduction of agents into the workers compensation environment in Queensland will provide employers with choice, and therefore increase competition. Competition drives behaviours that improve performance. Improved claims performance results in better return to work outcomes for workers and better business outcomes for employers.

Appendix 2 of the Finance and Administration Committee's Information Paper (prepared by DJAG, Q-COMP & WorkCover) indicates that the 2012-13 average premium rate for the Queensland, New South Wales and Victorian schemes are comparable. This debunks the long-held belief that outsourcing would automatically increase premiums.

Privatization of workers compensation in Queensland would mean that the Queensland Government did not hold the risk and hence potential financial deficit. Outsourcing the management of the risk to industry specialists will allow for improved performance and outcomes.

Appendix 2 of the Finance and Administration Committee's Information Paper prepared by DJAG, Q-COMP and WorkCover identifies that Queensland's 2012-13 average premium rate has increased by approximately 26% since 2009-10 whilst in New South Wales, Victoria and South Australia, rates have reduced. This comparison serves to confirm that the introduction of agents into the scheme would not automatically impact premium costs.

Whether the current self-insurance arrangements legislated in Queensland continue to be appropriate for the contemporary working environment

Self-insurance in Queensland has been virtually unachievable for most medium-large employers since the legislative amendments to the WorkCover Queensland Act were promulgated in 1999. Prior the introduction of those legislative provisions, employers with 500 or more employees could apply for 'self-rating' if they met specific criteria. Self-rating was the equivalent of the current self-insurance arrangements.

In 1999, the minimum number of employees required for an employer to be eligible for self-insurance was raised to 2,000 FTE. Apart from the split of the previous Queensland Rail entity requiring the issue of a separate self-insurance licence for each organisation, there has only been one self-insurer's licence issued in the past five years.

The requirement that licence applicants have a minimum of 2,000 FTE employees is a highly restrictive and indefensible criteria. This threshold was established to protect the WorkCover fund, as opposed to providing flexible insurance arrangements.

Aon's experience indicates that there would not be a flood of employers exiting the scheme if this threshold was reduced or removed. The requirements to establish 'best practice' injury management, claims management and OHS systems, in addition to providing a bank guarantee for 150% of the actuarially assessed outstanding liabilities would ensure that only the most committed employers would pursue self-insurance.

Aon recommends that the threshold for employee numbers be removed.

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About Aon Hewitt

Part of the Aon Corporation, Aon Hewitt is the global leader in human resource consulting and outsourcing solutions. Our consulting services help leading organisations around the world solve their most important people and HR challenges. We also help individuals achieve financial wellbeing.

In Australia, Aon Hewitt provides consulting services and solutions to clients in the areas of superannuation and retirement, financial advice, workers' compensation, occupational health and safety, workforce risk solutions, employee benefits, talent and employee engagement, remuneration and incentives, total rewards, actuarial services, and mergers and acquisitions.

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