Insurance Council of Australia

Improving Insurance Affordability for Tasmanian Households and Businesses

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Contents

Executive Summary

This report presents evidence-based policy solutions to improve insurance affordability for Tasmanian households and businesses. While insurance affordability pressures are real, the proposed state-owned insurer TasInsure would create significant fiscal risks for taxpayers. Alternative approaches targeting risk reduction, tax reform and regulatory modernisation can more effectively and sustainably address Tasmania's insurance challenges.

The Case Against TasInsure

Independent economic analysis by Lateral Economics concludes that establishing a state-owned retail insurer would be costly and risky for taxpayers. The proposal would generate annual operating deficits of $4 million at 10 per cent market share, escalating to over $13 million at 30 per cent, with establishment costs of $150 million and prudential capital requirements up to $510 million (assuming a 30 per cent market share). These losses would exhaust the Motor Accidents Insurance Board (MAIB) reserves within 15 years, requiring taxpayer-funded bailouts. The scheme would expose the State to catastrophic losses exceeding hundreds of millions of dollars while lacking the economies of scale available to existing insurers. Rather than proceeding with TasInsure, the Government should implement risk-based solutions, tax reforms and regulatory improvements that address the underlying drivers of insurance costs.

Reducing Risk Through Strategic Investment

Tasmania's extreme weather exposure directly influences insurance costs. Approximately 98 per cent of Tasmania is bushfire-prone, while the State's insurable dwelling exposure of $119 billion represents 278 per cent of SDP, the highest ratio among Australian states. An event impacting just five per cent of Tasmania’s insurable dwellings would cost approximately $6 billion. Strategic resilience investment delivers measurable returns that directly reduce insurance costs. Analysis by Finity for the Insurance Council found that $46 million invested in fuel management and flood resilience would return $940 million in benefits by 2050, a 20-fold return. The Launceston flood levee demonstrates this value, preventing $216 million in losses during the 2016 floods against a construction cost of $58 million while generating annual premium savings of up to $14 million.

The Government should scope and fund resilience measures to reduce bushfire and flood risk, utilising the Australian Government's Disaster Ready Fund to co-fund investment and minimise impact on the State Budget. Engaging with industry to examine practical measures to enhance housing stock resilience, including future building codes and standards, would reduce long-term risk exposure. Reviewing land use planning arrangements to account for current and projected extreme weather events would prevent new development in high-risk areas. Working with other governments to update, standardise and publish climate hazard data for flood, bushfire and coastal erosion would improve risk understanding across all levels of government and industry.

Removing Inefficient Insurance Taxes

The Tasmanian Government collected $259.9 million from insurance taxes in 2024-25, comprising $154.2 million in stamp duty and $105.7 million through the Fire Services Levy. Due to compounding effects, businesses pay up to 48 per cent in taxes on their premiums while residential property owners pay 21 per cent in additional taxes. Multiple government reviews have identified state insurance taxes as inefficient and inequitable, consistently recommending their abolition. These taxes create financial disincentives to adequately insure, disproportionately impact lower socio-economic groups, and distort consumer behaviour. Tasmania is one of only two jurisdictions that levies insurance customers to fund emergency services, with New South Wales announcing its intention to remove this tax.

Removing stamp duty from insurance would reduce costs by 10 per cent for all Tasmanians while improving insurance coverage, particularly in high-risk areas prone to natural disasters. This reform would enhance community resilience and reduce future government disaster assistance requirements. Working with stakeholders to abolish the FSL on insurance and find a fairer way to fund fire and emergency services would remove up to 28 per cent in additional costs for businesses, bringing Tasmania into line with other Australian jurisdictions and supporting business competitiveness.

Modernising Civil Liability Frameworks

Public liability insurance premiums have increased 55 to 60 per cent nationally since 2019, driven by rising psychological injury claims, legal cost inflation, nervous shock claims, and worker-to-worker claims. Tasmania's civil liability settings have not been comprehensively reviewed since the early 2000s and no longer adequately address contemporary cost pressures. These outdated settings particularly impact Tasmania's tourism and hospitality sectors, which rely on affordable public liability coverage to operate.

Conducting a comprehensive review of civil liability settings would modernise outdated laws and ensure they remain fit for purpose for contemporary business needs. This review should examine psychological injury assessment, recreational activity liability protections, worker-to-worker claims frameworks, legal cost controls, and pre-litigation procedures. Providing grants funding for industry groups to investigate effective risk reduction and mitigation activities would enable businesses to lower their risk profiles and reduce premium pressure through targeted interventions.

Preserving Workers' Compensation Stability

Tasmania's workers' compensation scheme has demonstrated notable stability through its competitive structure involving private insurers, with the 2025-26 average premium rate lower than five years prior. This performance contrasts sharply with government-underwritten jurisdictions such as New South Wales and Victoria, which have experienced premium increases of over 29 per cent and 41 per cent respectively since 2021-22. Government entry into workers' compensation would create an uneven playing field through implicit state guarantees and lower capital requirements, potentially prompting private insurers to exit the market and reducing competition, customer choice and innovation in claims management.

Retaining current settings and arrangements for workers' compensation would preserve Tasmanian businesses' access to one of the most stable schemes in the country. However, mental health claims have emerged as a key cost driver, reaching 14 per cent of all claims in 2023-24. Undertaking targeted action to reduce the impact of mental health claims through comprehensive prevention initiatives addressing workplace mental health risk factors, enhanced treatment pathways, and early intervention programs would address cost pressures more effectively than structural market changes. Gazetting medical and allied health treatment rates and reviewing the legal framework, particularly the impact of no win, no pay arrangements on settlement costs, would provide additional cost management benefits.

A Sustainable Path Forward

Evidence-based policy interventions can effectively address Tasmania's insurance affordability challenges without exposing taxpayers to significant fiscal risks. By investing in resilience measures that deliver 20-fold returns, removing inefficient taxes that add up to 48 per cent to business premiums, modernising civil liability frameworks that have not been reviewed in two decades, and maintaining the workers' compensation stability that has delivered better outcomes than government schemes in larger states, Tasmania can reduce insurance costs sustainably while supporting a competitive private insurance market.

These solutions target the underlying drivers of insurance costs rather than transferring risk from the private sector to taxpayers. The insurance industry is committed to working with the Tasmanian Government and community to implement these evidence-based solutions and ensure Tasmanians have access to affordable insurance coverage over the long term.

Policy Recommendations

The Tasmanian Government should:

- Not proceed with its TasInsure proposal because of its significant fiscal and operational risks, and instead work with insurers on risk-based solutions and regulatory and tax reforms.
- Ensure that any policy intervention to support improved affordability and broader availability of insurance should:
  - Link affordability initiatives to mitigation by investing in resilience measures such as levees, firebreaks and enhanced building standards to reduce long-term claims costs and fiscal exposure.
  - Maintain actuarial integrity through risk-based pricing, with any subsidies made explicit and transparent.
  - Safeguard the Motor Accidents Insurance Board's (MAIB) reserves and dividend flows by avoiding expansion into voluntary, catastrophe-exposed markets.
- Scope and fund resilience investment measures to reduce the risk of bushfire and flood, alleviating impact on the State Budget by utilising the Australian Government's Disaster Ready Fund to co-fund investment.
- Engage with industry groups, including the insurance industry, to examine practical measures to enhance the resilience of Tasmania's future housing stock, including considering the role of future codes and standards.
- Review land use planning arrangements to take into account current and projected extreme weather events with input from relevant councils.
- Work with other governments to update, standardise and make publicly available climate hazard data, prioritising flood, bushfire, and coastal erosion.
- Investigate options to remove stamp duty from insurance, reducing the cost of insurance by ten per cent for all Tasmanians.
- Work with stakeholders to abolish the FSL on insurance as recommended by the Blake review and find a fairer way to fund fire and emergency services.
- Conduct a review of civil liability settings in the State with the view to modernising outdated laws and ensuring they remain fit for purpose.
- Provide grants funding for industry groups to investigate effective risk reduction and mitigation activities for businesses to lower risk and therefore premium pressure.
- Retain its settings and arrangements for Workers' Compensation, which ensure Tasmanian businesses and not-for-profits have access to one of the most stable Workers' Compensation regimes in the country.
- Undertake targeted action to reduce the impact of mental health claims on the Workers' Compensation scheme.

Introduction

This paper sets out the current economic, environmental, and regulatory conditions in Tasmania and how these settings influence the cost of insurance for households and businesses. It also seeks to demonstrate the solutions available to reduce risk and costs to deliver more affordable insurance for businesses and property owners across the State.

Insurance affordability pressures are being experienced across Australia and across the globe due to a range of factors. These factors include increasingly frequent and intense extreme weather events, global conflicts interfering with supply chains and capital flows, skills shortages delaying or inflating repair costs, asset construction inflation and general price inflation, rising compensation demands, and the cost of capital for insurers.

All levels of government in Australia are grappling with these challenges, and the insurance industry is working in partnership with government in a variety of ways to identify and deploy solutions. These solutions include:

- The Australian Government's Hazard Insurance Partnership which works with insurers to identify risk reduction opportunities
- State governments considering more resilient land-use planning, undertaking tax reform, and in New South Wales and Queensland, implementing home resilience programs that support household risk reduction
- Local councils considering climate-risk when making development approvals, conducting flood studies, and classifying and releasing land.

As climate risks reach unprecedented levels and the cost of rebuilding and replacing homes and buildings continues to rise, partnerships between government and the private sector are critical to securing affordable insurance over the long-term.

Tasmania's extreme weather risks influence the State's underwriting profile and affect insurance affordability.

- Tasmania's insurable dwelling exposure (approximately $119 billion) represents 278 per cent of state GDP ($42.82 billion), which is the highest ratio among Australian states and indicates that the State's economic capacity is least able to absorb catastrophic insurance losses.
- Approximately 98 per cent of Tasmania is designated as bushfire-prone, the highest ratio of bushfire risk of any state or territory, creating almost universal bushfire risk considerations for property insurance.[1]
- A 5 per cent loss event would cost approximately $6 billion (15 per cent of state GDP). By way of comparison, private insurers have access to $70 billion in annual global reinsurance capital, which includes Tasmanian risk.
- While flood risk is lower in Tasmania than the three east coast states, it remains present. The September 2024 floods and storms resulted in extended power outages, major flooding in the Derwent River catchment, and activation of emergency disaster assistance payments.

[1] Tasmania Fire Service, "Bushfire-Prone Areas," https://www.fire.tas.gov.au/Show?pageId=colBushfireProneAreas

- While the impact of hail is not as severe in Tasmania compared to the mainland states, more frequent and severe hailstorms are expected to occur, as a warming climate brings with it larger and heavier hail stones.[2]

This heightened risk profile, combined with Tasmania's limited economic capacity to absorb catastrophic losses, makes it imperative that the State pursue evidence-based policy solutions that address the underlying drivers of insurance costs rather than interventions that transfer risk to taxpayers.

[2] Changes in Hail Damage Potential in Major Australian Cities With Global Warming - Raupach - 2025 - Geophysical Research Letters - Wiley Online Library

Extreme weather risk

Tasmania's climate risk profile

Tasmania is exposed to a number of extreme weather types which are expected to worsen as a result of climate change. Approximately 98 per cent of Tasmania's land area is bushfire-prone, while floods, storms, coastal inundation, landslips, and other severe events also pose significant threats.[3] In addition, heatwaves are becoming more frequent and rising sea levels are increasing the risks of coastal erosion and inundation. While earthquake risk remains lower and is not impacted by climate change, it continues to be monitored.

Tasmania suffered more than $336 million in insured losses in the five years between 2013 and 2018 from two bushfires and a flood. The 2013 Dunalley bushfire caused $88.9 million in insured losses and an estimated $500 million economic impact. The 2016 Launceston and LaTrobe floods generated $60 million in insured claims and $400 million in economic costs. More recently, the 2018 Hobart floods produced $99.6 million in insured losses alongside a 7.5 per cent contraction in measured economic activity in the affected quarter.[4]

In addition to the 2013 and 2016 wildfires and the 2018 floods, Tasmania has also been impacted by several catastrophic extreme weather events that impacted multiple states over the past two decades, including the 2003 East Coast Low, the 2008 windstorm, the 2021 severe storms and the 2022 floods. A large bushfire in Hobart, such as the 1967 Black Tuesday bushfires, could produce insured losses exceeding $2 billion. These extreme weather events demonstrate that even relatively contained events can impose significant costs on the Tasmanian economy.

Resilience investment

Tasmania has around 220,000 homes and businesses[5], approximately 195,000 of which have insurance, representing an 85 per cent penetration rate (March 2025).[6] This is higher than the national average penetration rate for home insurance, which various surveys and studies have estimated to be around 80 per cent.[7] The average insured value of a Tasmanian dwelling is $707,000, with a majority of insured properties sitting between $643,750 and $799,000. Overall, the total insured value of Tasmania's residential property is approximately $138 billion.[8] For context, Tasmania's Gross State Product (GSP) was about $42.82 billion in 2024-25.[9]

With such a high proportion of households insured and such large sums at stake, the exposure of the insurance system – and the Tasmanian economy more broadly – to extreme weather events is significant.

While extreme weather cannot be stopped, its impact can be mitigated. Analysis undertaken for the Insurance Council in 2022 by actuarial consultancy Finity found that investment of just $46 million in fuel management and flood resilience measures would return a benefit of $940 million by 2050, a 20-fold return on investment.

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[3] Tasmania Fire Service, Bushfire-Prone Areas (2025) Tasmania Fire Service
[4] Tasmanian Insurance Profile, 2025
[5] Lateral Economics, Economic Assessment of TasInsure: Costs, Risks and Market Implications (2025)
[6] Tasmanian Insurance Profile, 2025
[7] * Australians who own their house outright or have a mortgage. Australia Institute, Polling – Home & contents insurance (2025) Polling – Home & contents insurance - The Australia Institute
[8] Tasmanian Insurance Profile, 2025
[9] Department of Treasury and Finance, State Accounts (November 2025) State Accounts

Investments such as the Launceston flood levee highlight the value of projects that improve community resilience by mitigating extreme weather risk. During the 2016 floods surrounding the North Esk River, the 2014 upgrade of the levee system prevented an estimated $216 million in losses compared with an original construction cost of $58 million, saving the community more than four times its total investment.[10] The Launceston flood levee is also credited with annual insurance premium savings of up to $14 million, illustrating how targeted resilience measures can lower overall risk and put downward pressure on premiums.[11]

Additional funding for fuel management in Tasmania is needed to help mitigate Tasmania's bushfire risk. This should include prescribed burning, alternative techniques, and the use of satellite imagery and remote sensing to monitor fuel loads.[12] Prescribed burning, already used across Tasmanian bushland and forested areas, can reduce bushfire intensity and spread. Public education and integrating traditional Indigenous burning knowledge may further enhance hazard management. Complementary fuel management approaches, such as mechanical thinning, are also needed in areas difficult to burn safely, including urban-bush interfaces around Hobart, Launceston, and other populated centres.

Land use planning arrangements do not adequately account for current or future bushfire, flood or cyclone risk when determining where new homes can be built, unnecessarily worsening the impact of these events. Too many Tasmanian homes are in the direct line of flood, bushfire, or at risk from the sea because at the time of planning and approval not enough account was given to the extreme weather risk. Many of these properties are now cheaper to buy or rent because of this risk, and some are home to those who are least able to afford adequate insurance, compounding the impact of extreme weather events. Reform of land use planning is critical to reduce extreme weather risk into the future.

The development of a robust hazard database that streamlines existing national, state and territory datasets and is accessible to all levels of government, industry and the Australian public will improve and standardise our understanding of climate risk and how we prepare for it. This data should consider all possible perils to help establish a national public baseline that can better inform land use planning, building codes and standards, and understanding of current and future risk.

Policy recommendation:

- The Tasmanian Government should scope and fund resilience investment measures to reduce the risk of bushfire and flood, alleviating impact on the State Budget by utilising the Australian Government's Disaster Ready Fund to co-fund investment.
- The Tasmanian Government should engage with industry groups, including the insurance industry, to examine practical measures to enhance the resilience of Tasmania's future housing stock, including considering the role of future codes and standards.
- The Tasmanian Government should review land use planning arrangements to take into account current and projected extreme weather events with input from relevant councils.
- The Tasmanian Government should work with other governments to update, standardise and make publicly available climate hazard data, prioritising flood, bushfire, and coastal erosion.

[10] Natural Hazards Research Australia, Costs and benefits of flood mitigation in Launceston (2025) Costs and benefits of flood mitigation in Launceston | Natural Hazards Research Australia
[11] Tasmanian Insurance Profile, 2025
[12] Insurance Council of Australia, Reaping the rewards of resilience (2022) https://insurancecouncil.com.au/wp-content/uploads/2022/02/R_ICA_Resilience_Final_220218.pdf

Insurance taxes

Taxing insurance twice

Tasmania currently imposes multiple taxes on insurance products, generating $259.9 million in state revenue during 2024-25. This includes $154.2 million from stamp duty on insurance and $105.7 million from the Fire Services Levy (FSL) on commercial businesses.

Tasmania is one of only two Australian jurisdictions (alongside New South Wales) that continues to directly levy insurance customers to fund fire and emergency services by imposing a charge directly on insurance policies. The New South Wales government has announced its intention to remove this tax. While Tasmania does not levy FSL on household insurance products (as New South Wales does), it is levied on commercial insurance which drives up insurance premiums for businesses across the State.

Like most Australian states and territories, Tasmania applies stamp duty rates of 10 per cent on general insurance premiums, with the tax calculated on the total premium inclusive of GST and other levies.[13]This creates a compounding 'tax on tax' effect, resulting in an effective tax burden significantly higher than the nominal rate. When combined with GST and emergency services levies, the total tax burden on insurance in Tasmania can add up to 48 per cent for businesses and 21 per cent for households to the base premium.

Impacting vulnerable communities

The current insurance tax structure in Tasmania creates significant equity concerns because it creates a financial disincentive to adequately insure, making it harder for lower socio-economic groups who have less capacity to pay. These households face higher relative tax burdens when insuring their assets and they are less likely to be able to invest in risk reduction options.

Nationally, there is a link between high-risk areas and low socioeconomic status because higher risk properties tend to be situated in areas where house prices are more affordable. An unfortunate consequence is that these homes are attractive due to their lower purchase price, however, over time these high-risk areas subject to bushfires, floods, and storms face substantially higher insurance premiums and proportionally higher stamp duty payments. Analysis of the 2024 National Flood Information Database (NFID) indicates that approximately 70 per cent of households nationally exposed to the highest flood risk are in areas where the median income is below the national median ($92,000), and around 35 per cent of these households are in areas where the median income is below the poverty line ($58,000).[14]

Economic efficiency costs

Multiple government reviews have identified insurance stamp duty as among Australia's least efficient taxes including due to its distortionary impact on consumer behaviour. The narrow tax base and high rates create substantial economic distortions, reducing insurance market participation. A 2015 Deloitte Access Economics study, commissioned by the ICA, estimated that abolishing insurance taxes and replacing revenue through municipal rates would increase private consumption by $5.5 billion annually and boost government revenues by $575 million through improved economic activity.[15]

[13] State Revenue Office Tasmania, "Rates of duty," https://www.sro.tas.gov.au/insurance-duty/rates-of-duty.
[14] Insurance Council of Australia, *Insurance Catastrophe Resilience Report 2024-25, 21340_ICA_CAT-Report_2025_Final-spreads.pdf*

[15] Deloitte Access Economics (for the Insurance Council of Australia), "Impact of removing stamp duties on insurance" Report.

FSL reform

The FSL adds up to 28 per cent to the cost of a diverse range of commercial insurance policies, but with a bias towards those who prudently seek financial protection against the risk of damage to their assets by fire. This cost is passed on to levied businesses' customers, ultimately borne by the Tasmanian community and the State's economy. New South Wales is the only other Australian jurisdiction that taxes insurance customers to fund emergency services, and announced a process to remove this tax.

The FSL has delivered windfall gains to the Government in recent years, with State Fire Commission data showing that revenue collected from insurance customers went from $33.4 million in 2021-22 to $41.8 million in 2022-23, a jump of 25 per cent in just one year. The same data shows that the tax take from the FSL has almost doubled between 2018-19, when it collected just $21.4 million, and 2022-23.

The 2020 Blake Review, commissioned by the Gutwein Government, recommended that the FSL on insurance be replaced "with a property-based levy or another funding source providing similar, and consistent (predictable), levels of funding", and that engagement with the Insurance Council and property owners take place "to quantify benefits from lower insurance premiums and consider how these might be shared with the broader community".

In 2023, the Rockcliff Government commenced a consultation process with the aim of removing the Fire Services Levy. Ahead of the March 2024 State election, the Government announced it was "pausing" the reforms, although this consultation has not been recommenced.

Tax reform imperatives

Abolishing insurance stamp duty in Tasmania would:

- Improve tax system equity by removing the disproportionate burden on vulnerable households
- Increase insurance coverage, particularly in high-risk areas prone to natural disasters
- Enhance community resilience and reduce future government assistance requirements
- Generate broader economic benefits through improved resource allocation

This reform would align with Tasmania's broader policy objectives of supporting disadvantaged communities and building climate resilience. Given the State's exposure to bushfires, floods, and coastal weather events, ensuring adequate insurance coverage across all socio-economic groups would provide social, fiscal and economic benefits. Abolishing the FSL in Tasmania, as recommended by the Blake Review, would remove this impost on Tasmanian businesses, bringing the State into line with other Australian jurisdictions and reducing costs for business.

Policy recommendations:

- The Tasmanian Government should investigate options to remove stamp duty from insurance, reducing the cost of insurance by ten per cent for all Tasmanians.
- The Tasmanian Government should work with stakeholders to abolish the FSL on insurance as recommended by the Blake review and find a fairer way to fund fire and emergency services.

Business insurance (public liability)

Outdated civil liability settings

Public liability insurance provides financial cover in the event of personal injury or property damage claims brought by a third party. This type of cover delivers a crucial safety net for businesses, not-for-profits, and community organisations to undertake their business operations and community services with the knowledge they are protected in case of an unexpected event.

Access to affordable public liability cover is vital for Tasmania's economy, which derives a significant portion of its' revenue from tourism and tourism-related industries.

However, like all Australian states, Tasmania faces public liability cover affordability challenges. These challenges are largely due to increasing litigation and rising claims costs that are putting upward pressure on premium costs and in some sectors, making it difficult for businesses to obtain the necessary coverage to fully insure their operations.

The insurance industry has been engaging with those sectors facing acute affordability challenges to support businesses in undertaking risk reduction activities that can translate into more affordable premiums. While risk management and mitigation are essential to ensuring ongoing market viability, the civil liability legal framework plays a significant role in determining underwriting risk and ensuring access to affordable public liability insurance.

Cost pressures

Public liability insurance premiums have increased by between 55 to 60 per cent nationally since 2019, with some sub-sectors experiencing greater rises as a result of changes in their risk profile.[16] While the market has softened in recent years, some sub-sectors continue to find it difficult to access affordable coverage, typically in business sectors which include the service of alcohol, entertainment, or adventure tourism. Tasmania's unique economic profile, characterised by heavy reliance on tourism, outdoor recreation, and small business operations, makes this issue particularly acute in Tasmania.

There are number of key factors driving these unsustainable claims costs in jurisdictions across Australia, including:

- **Social inflation:** Claims costs have risen above inflation due to higher compensation demands and changing societal expectations around liability.
- **Psychological injuries:** Psychological claims are increasingly accompanying physical injury claims, with compensation costs often up to four times higher than physical injury claims alone.
- **Legal cost inflation:** Rising litigation expenses and the growing influence of third-party litigation funding is contributing to higher overall claim costs.
- **Nervous shock claims:** Growing numbers of claims by family members of injured parties, often extending to multiple family members including grandchildren and their partners.
- **Worker-to-worker claims:** These claims average $260,000 in settlements compared to $120,000 for other bodily injury claims, and their complexity and delayed reporting make them difficult and expensive to manage.[17]

[16] Finity Optima Report (2024), https://finity.com.au/campaign/optimalite-2024
[17] APRA, NCPD Analysis (2023) Review of claims trends and affordability of public liability and professional indemnity insurance in Australia

These cost pressures have created a cascade of market impacts that directly affect Tasmania's business and non-profit sectors. In response to these rising cost pressures insurers have had to increase premiums, reduce their capacity for certain risks, and increase coverage restrictions and exclusions. This has left some businesses and non-profits unable to obtain coverage at a sustainable price.

Civil liability laws have not been comprehensively reviewed since the Ipp Review of the early 2000s, which led to reforms that dramatically improved business access to affordable public liability insurance. To improve insurance affordability for businesses, the Tasmanian Government should review civil liability settings with a view to introduce reforms that address these pressures.

Policy recommendation:

- The Tasmanian Government should conduct a review of civil liability settings in the State with the view to modernising outdated laws and ensuring they remain fit for purpose.
- Provide grants funding for industry groups to investigate effective risk reduction and mitigation activities for businesses to lower risk and therefore premium pressure.

Business insurance (workers' compensation)

Current scheme structure

Tasmania's workers' compensation system operates under the *Workers Rehabilitation and Compensation Act 1988* and its supporting regulations. The scheme aims to provide fair and timely compensation to injured workers, facilitate effective rehabilitation and return-to-work outcomes, and maintain financial sustainability. All Tasmanian employers are required to hold workers' compensation coverage.

The State operates a mature, competitively underwritten scheme comprising six licensed insurers serving most private sector employers. Large organisations may apply to WorkSafe Tasmania for self-insurance permits, with eight organisations currently holding such permits as of May 2024. Additionally, the Tasmanian Risk Management Fund (TRMF) provides whole-of-government self-insurance coverage for State Service agencies and participating public entities.

Market share based on earned wages shows licensed insurers hold approximately 77 per cent of the scheme, TRMF accounts for 20 per cent, and self-insurers represent three per cent.[18]

Tasmania's workers' compensation scheme has demonstrated notable premium stability over the past five years, with the 2025-26 average premium rate lower than five years prior.[19] This performance contrasts sharply with government-underwritten jurisdictions such as New South Wales and Victoria, which have experienced premium increases of over 29 per cent and 41 per cent respectively since 2021-22.[20]

Structural reform risks

The proposal for TasInsure to provide workers' compensation insurance represents a fundamental shift in the scheme's competitive structure.

A government-backed insurer would likely operate with implicit state guarantees, potentially enabling lower capital requirements and artificially lower prices. Any relaxation of capital adequacy standards for a government-backed insurer creates an uneven playing field and undermines the prudential integrity and long-term sustainability of the scheme. This competitive advantage could prompt existing insurers (especially those with a smaller market share or lower gross written premiums) to exit the market, reducing overall competition, customer choice, and market diversity. This is an unsustainable operating model that could lead to overall higher prices if competition was diminished.

Reduced competition may also diminish incentives for innovation in claims management practices. In competitive markets, insurers are motivated to continuously improve service delivery and develop innovative approaches to claims handling, mindful of reputational consequences. The current participating insurers bring substantial claims management expertise and strategic benefits to the scheme including strong relationships built on trust, consistent pricing, and a commitment to innovation in claims management. The competitive environment encourages insurers to enhance service standards, ultimately benefiting employers and injured workers.

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[18] In 2023/24, earned wages were: licensed insurers: 14.2 billion; self-insurers: $560 million; and TRMF: $3.7 billion. WorkCover Tasmania Scheme Review to 30 June 2024, Scyne Advisory, October 2024, WorkCover Tasmania - Scheme Review to 30 June 2024
[19] The average premium rate was 2.11 per cent in 2021/22 and is 2.06 per cent in 2025/2026.

[20] The average premium rate in NEW SOUTH WALES was 1.44 per cent in 2021/22 and 1.87 per cent in 2025/26. The average premium rate in Victoria was 1.272 per cent in 2021/22 and 1.8 per cent in 2025/26.

Government insurers face different commercial incentives regarding active claims management and early intervention compared to private insurers. This could potentially affect claim durations, medical approval timeframes, and return-to-work outcomes for injured workers.

While employers might initially benefit from aggressive pricing strategies designed to capture market share, this could come with reduced choice and declining service standards if private insurers withdraw from the scheme. Without sustained competitive pressure, premium stability may be compromised as claim costs increase or government fiscal priorities shift. The potential loss of specialist underwriting capacity could particularly affect employers with complex or specialised risk profiles.

A government-underwritten scheme exposes the State balance sheet to significant financial risk. If premiums are set below actuarially sound levels, future deficits may require injections of public funds. This scenario has occurred in multiple government-underwritten schemes in other jurisdictions.

Private insurers operate under a 'fully funded' requirement, maintaining adequate reserves to meet all future claim liabilities. This provides assurance that injured workers' entitlements will be met. Statutory insurance schemes underwritten by general insurers are further subject to robust prudential oversight under the *Insurance Act 1973*. Government-run insurers typically do not face the same level of consistent, independent prudential scrutiny.

Alternative approaches to cost management

Addressing cost pressures in workers' compensation schemes may be more effectively achieved by targeting the underlying drivers of cost growth rather than implementing structural market changes.

Scheme payments in Tasmania increased by 19 per cent in 2023-24 compared to the previous financial year. This growth was primarily driven by weekly payments (up 17 per cent) and lump sum payments (up 32 per cent), with medical payments (up 9 per cent) and legal payments (up 14 per cent) also contributing to the increase.

Workers' compensation claims costs in Tasmania have been impacted by high wage growth (wages grew by 3.9 per cent in the state during 2024 compared to 3.2 per cent nationally), limited access to expert healthcare, scare regional employment options, and extended weekly benefit pathways.[21]

Mental health-related claims have emerged as a key cost driver. These claims reached their highest proportion at 14 per cent of all claims in the 2023-24 accident year, with 90 per cent of serious work-related mental health conditions attributed to work-related mental stress.

Prevention-focused policy interventions

These trends indicate an opportunity for targeted government action to reduce the impact of psychological injuries and legal payments through:

- Comprehensive prevention initiatives addressing workplace mental health risk factors
- Enhanced treatment pathways for mental health conditions
- Early intervention programs to prevent chronic conditions from developing
- Government gazetting of medical and allied health treatment rates
- A review of the legal framework, particularly the impact of "no win, no pay" lawyers and their contribution to settlement costs.

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[21] [1] Tasmania's annual wage growth highest in the nation, media release, Roger Jaensch, Minister for Finance, 19 February 2025, Tasmania's annual wage growth highest in the nation | Premier of Tasmania

By addressing risk factors proactively, these measures could reduce the burden of disease, minimise hospital admissions, and ease pressure on healthcare systems and claims costs. Such targeted interventions may deliver more substantial benefits to Tasmania's workers' compensation scheme and broader community wellbeing than structural market reforms.

Policy recommendation:

- The Tasmanian Government should retain its settings and arrangements for Workers' Compensation, which ensure Tasmanian businesses and not-for-profits have access to one of the most stable Workers' Compensation regimes in the country.
- The Tasmanian Government should undertake targeted action to reduce the impact of mental health claims on the Workers' Compensation scheme.

Analysis of TasInsure proposal

Overview

In August 2025, the Insurance Council commissioned economic consultancy Lateral Economics to conduct an economic analysis of the Tasmanian Government's proposal to establish state-owned insurer, TasInsure. The Government has indicated that TasInsure would offer insurance cover for small businesses, households, farmers and community groups. In the lead-up to the State election, the Government said the proposal would deliver savings of $250 per annum for households and a 20 per cent reduction for businesses.[22]

The Government has suggested it would expand the existing infrastructure of the MAIB to establish TasInsure as a state-backed insurance scheme. MAIB is currently owned by the Government and offers compulsory third-party motor accident cover, which is a mandatory inclusion when Tasmanians register their vehicle. Under the TasInsure proposal, MAIB's mandate would be expanded through legislative changes to allow it to offer voluntary insurance products beyond just compulsory motor accident coverage, using its existing financial position to leverage capital against a significantly expanded range of risks.

Lateral Economics analysis concluded that setting up a State-owned insurance company will be costly and risky for the Government and will crowd out existing private sector insurance, with negative impacts for Tasmanian consumers and businesses. This section is informed by Lateral Economics' analysis.

Core policy tension

A recurring tension exists between sound public policy intervention principles and the political pressures that can drive governments to intervene in insurance markets. Understandably, political leaders can feel pressure to respond to public anxiety about actual or perceived high premiums or lack of coverage.

International experience shows that where governments acknowledge this tension and carefully manage it, interventions can achieve the best of both worlds – addressing affordability and coverage in targeted ways while supporting the operation of a functioning private market. When this tension is not carefully managed, interventions can produce the worst of both worlds – increased risk and increased costs. While insuring high-risk properties may become more affordable in the short term through cross-subsidisation or discounting, intervention ultimately degrades an insurance market's ability to understand and price risk. Further, it undermines the ability of government and private sector to work together to mitigate those risks, while fiscal exposures accumulate into the future.

Tasmanian Government's proposal

According to the Tasmanian Treasury's official costing note, TasInsure would provide home and contents, small and regional business as well as community and event insurance products[23]. The stated objective is to address what are assumed to be affordability and availability gaps in the Tasmanian market, aligning with the rationale of correcting thin or concentrated markets. However, a central feature of the proposal is the intention to capitalise TasInsure using reserves from the MAIB. The Tasmanian Treasury has explicitly warned that drawing down these reserves "could have an adverse impact on [MAIB's]

[22] Tasmanian Liberals, "TasInsure to reduce Cost of Living Pressures on Families" [TasInsure to reduce cost of living pressures on families | Tasmanian Liberals], Tasmania Liberal "TasInsure delivers for all Tasmanians" [TasInsure delivers for all Tasmanians | Tasmanian Liberals]
[23] Department of Treasury and Finance, [Documents for release - RTI2526-002 Josh Willie MP - TasInsure.PDF].

returns to Government" and noted uncertainty about whether such reserves would be sufficient to fund both establishment costs and the liabilities that arise as policies mature.[24]

Critically, Treasury's costing note acknowledges that it was unable to cost the policy because of insufficient information on TasInsure's structure, governance, legislative framework, and financing requirements.[25] This indicates that while the political announcement set out ambitions, the supporting business case has not been fully developed. The absence of a defined capital plan, governance framework, or pricing strategy represents a material gap in the policy development process.

Critical findings

The financial modelling reveals substantial concerns associated with a State-run insurance provider. Under scenarios where TasInsure captures 10 to 30 percent of Tasmania's $1.2 billion annual insurance market, annual operating deficits are projected at $4 million for a 10 percent market share, escalating to over $13 million at 30 percent share. In effect, TasInsure would lose money on every policy it sells. This situation would only deteriorate if TasInsure's market share grows, resulting in the dilution of MAIB's reserves.[26]

Aside from TasInsure's market entry damaging private market solvency, a State-owned insurer would not benefit from the scale economies available to existing insurers leading to a higher cost structure. It is anticipated initial establishment costs for TasInsure would be $150 million up front, with prudential capital requirements ranging from $170 million (at 10 percent market share) to $510 million (at 30 percent share), far beyond what could prudently be funded from MAIB's reserves. Lateral Economic's analysis finds that anticipated annual losses would exhaust MAIB's current reserves in six to seven years and the Government would be forced to bolster TasInsure through equity injections financed by new debt, effectively using taxation revenue to prop up TasInsure.

The proposal relies on MAIB reserves, but critical operating differences (between the current MAIB and the proposed TasInsure) undermine this approach. MAIB operates in compulsory third-party motor accident cover. Compulsory third-party cover schemes offer a stable and narrow pool with limited catastrophe exposure, predictable long-tailed claims, and reliable investment income. TasInsure would enter voluntary lines exposed to catastrophes, such as home and business property insurance, where adverse selection is a concern: TasInsure would be expected to attract a disproportionately high share of higher-risk customers, which raises underwriting risk and makes losses more volatile and correlated. In simple terms, adverse selection means riskier customers are more likely to buy coverage, creating an imbalanced risk pool that is harder to price and manage.

MAIB's reserves are currently strong relative to its obligations, but when pressed to service a large expansion in premium revenue and associated risk under TasInsure those reserves would be stretched beyond prudent levels without further injection from the State budget. This would reduce MAIB's dividend contributions to Government (currently $30 to $40 million annually) and expose the State budget to materially higher volatility.

Scenario modelling highlights the scale of catastrophe exposure. Smaller floods could cause $40 to $80 million in claims, fires like the 2013 Dunalley event could produce $160 to $180 million in losses, and a Hobart-scale bushfire could exceed $2 billion in insured losses. Even with reinsurance, extreme events would leave the State liable for hundreds of millions of dollars, while covering correlated catastrophe risks would force TasInsure to purchase reinsurance at materially higher premiums than MAIB currently faces.

[24] Ibid.
[25] Ibid.
[26] Reserves are funds set aside to pay future claims and financial obligations.

International evidence

Four international case studies illustrate potential pitfalls of and alternatives options for government intervention in insurance markets.

- **The California FAIR Plan** shows how mandated pools can ensure access but suffer solvency strain in wildfire-prone environments.[27]
- **The US National Flood Insurance Program** demonstrates how political resistance to actuarial pricing leads to the challenge of providing affordable coverage while also remaining financial solvent and eventual fiscal bailouts.[28]
- **The New Zealand Earthquake Commission** reveals that capped, levy-funded schemes can work but buckle under administrative strain after major disasters.[29]
- **Australia's Cyclone Reinsurance Pool** highlights an alternative upstream approach, where pooling catastrophic risks at the national level can improve availability without creating a retail government insurer, although it still carries fiscal exposure through a government guarantee.[30]

These studies reinforce that retail models with political pricing tend to run deficits, while upstream pooling and capped models with actuarial discipline show greater durability. Detailed analysis of comparable international intervention examples is discussed from page 21 of this paper, and more detail is provided in Lateral's analysis, published separately.

Conclusion

TasInsure should not be established as a retail insurer. The design risks producing the worst of both worlds – politically responsive but fiscally unsustainable, imposing consistent operating losses, exposing the State to fiscal risks, crowding out private insurers, and potentially creating regressive cross-subsidies.

Without strategic investment in mitigation, TasInsure would struggle to achieve both affordability and fiscal sustainability objectives. The scheme would simply transfer the financial burden from the private market to the public, leaving families and businesses ultimately liable. For example, if an event like the 1967 Black Tuesday bushfires were to occur today, insured losses could reach $2 billion – costs that would fall on taxpayers rather than being absorbed by private insurers as would happen under current arrangements.[31]

Policy recommendation:

- Not proceed with its TasInsure proposal because of its significant fiscal and operational risks, and instead work with insurers on risk-based solutions and regulatory and tax reforms.
- The Tasmanian Government should ensure that any policy intervention to support improved affordability and broader availability of insurance should:
    - Link affordability initiatives to mitigation by investing in resilience measures such as levees, firebreaks and enhanced building standards to reduce long-term claims costs and fiscal exposure.

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[27] Kennedys, Structure of the California FAIR Plan and the financial challenges.
[28] U.S. Government Accountability Office, Can FEMA and Flood Insurance Keep Up with the Rising Tide of Risks? | U.S. GAO.
[29] RNZ Not just earthquakes: EQC gets a new name - the Natural Hazards Commission | RNZ News.
[30] Australian Reinsurance Pool Corporation "Cyclone pool fact sheet" Cyclone pool fact sheet - ARPC.
[31] Lateral Economics, Economic Assessment of TasInsure: Costs, Risks and Market Implications (2025)

- Maintain actuarial integrity through risk-based pricing, with any subsidies made explicit and transparent.
- Safeguard MAIB’s reserves and dividend flows by avoiding expansion into voluntary, catastrophe-exposed markets.

International case studies

Scheme	Objectives and Structure	Outcomes	Lessons / Relevance to TasInsure
California FAIR Plan	Established in 1968 to provide basic fire coverage to homeowners in high-risk areas when private insurers withdrew. Operates as an insurer of last resort, with mandatory industry participation proportional to market share. Overseen by the California Department of Insurance, day-to-day operations managed by an industry pool.	Mandated participation maintains coverage but comes with higher premiums and limited perils coverage. As of June 2025, policyholders have doubled to 610,179, government exposure reached US$650B, and major 2025 fires stressed FAIR's solvency, highlighting ongoing risk and capital challenges.	Basic coverage protects households while limiting government exposure, but private insurers still needed to offer optional add-ons. Clear coverage scope, robust reinsurance, and periodic actuarial reviews are critical to managing risk and maintaining solvency. Need to insulate necessary premium adjustments from political pressures and preserve incentives for risk mitigation. Pooling arrangements can support coverage but have limits, especially under catastrophic events.
US National Flood Insurance Program (NFIP)	Established in 1968 to provide Federally backed flood insurance where private insurers would not cover correlated flood risks. Participation is linked to compliance with Federal floodplain management regulations, incentivising hazard mitigation and improved land-use planning.	Enabled nationwide flood insurance but premiums historically underpriced for political reasons, leading to chronic deficits and cumulative debt exceeding USD 20 billion. Major disasters exposed weaknesses in subsidised pricing and created moral hazard, encouraging rebuilding in flood-prone areas.	Embedding hazard mitigation requirements in scheme can promote climate resilience but must be balanced with affordability to keep households in the scheme. Highlights the risks of political interference in pricing and importance of linking insurance to hazard mitigation. Offers a model for integrating insurance with long-term risk reduction strategies.
New Zealand Earthquake Commission (EQC)	Established in 1945 to provide statutory natural disaster cover for residential property, funded by a levy on private insurance policies. Covers earthquake, volcanic eruption, tsunami, and landslip with capped first-loss limits, preserving private market coverage while spreading risk nationally.	Canterbury earthquakes (2010–11) generated over 460,000 claims and NZD 12 billion in payouts. EQC met obligations using reserves, reinsurance, and government support, but administrative overload caused delays, disputes, and litigation.	Highlights the importance of capping public exposure, layering private coverage, setting clear liability limits, robust governance, and pre-prepared claims systems. Hazard research and mapping is critical to inform policy and resilience measures.
Australian Cyclone Reinsurance Pool	Launched in 2022 to address high premiums in northern Australia due to cyclone and flood risks. Administered by the ARPC with	Despite the pool leading to falls for some customers in higher cyclone risk regions, the price of home and strata insurance across Australia is generally high and	Upstream interventions can improve affordability without direct government retail involvement. Combining affordability with resilience measures is important.

	mandatory insurer participation and an unlimited Commonwealth guarantee. Operates at the reinsurance level to lower costs for insurers and policyholders, reducing political and administrative burden.	rising. ACCC found that the average home and contents premium in north Queensland and Northern Territory is over $3,000 p/a, while in northwestern Australia the average premium is over $4,600. Strata premiums remain high across northern Australia, especially in north-western Australia, where the average premium increased by 18 per cent to be more than $18,000 (per policy). Early challenges included insurer system alignment and accurate risk data. Encourages private sector engagement by removing tail risks and links to broader risk reduction frameworks.	Highlights the need to define clear exposure limits and consider capped guarantees to manage fiscal risk.

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