



Insurance Council  
of Australia

23 February 2026

Senator Deborah O'Neill  
Chair  
Parliamentary Joint Committee on Corporations and Financial Services  
Via upload

Dear Chair

### **Small business insurance – workers' compensation**

The Insurance Council of Australia (Insurance Council) welcomes the opportunity to provide a submission on behalf of our members on this important topic.

The Insurance Council is the representative body for the general insurance industry of Australia. Our members represent approximately 85 per cent of total premium income written by private sector general insurers and provide a range of general insurance products including small business insurance products.

This submission is one of a series of submissions the Insurance Council will be providing to the Committee's inquiry and focusses on workers' compensation insurance. This submission outlines the key challenges facing workers' compensation schemes, their implications for small business, and recommended reforms to ease cost pressures and support long-term scheme sustainability.

#### **What is workers' compensation insurance**

Workers' compensation is a compulsory statutory insurance that protects workers and ensures employers can meet their obligations when injuries or illnesses occur. For small businesses with tight margins and limited administrative capacity, stable and affordable premiums are essential to maintaining confidence and operational sustainability.

Across Australia, workers' compensation schemes are under increasing pressure due to rising claim numbers, higher average claim costs, longer claim durations and rapid growth in psychological injury claims. Impacts vary by jurisdiction, reflecting differences in legislation, scheme design, claims management processes, coverage rules and premium setting methods.

Australia has 11 separate workers' compensation schemes, each with its own legislation, benefit structures, premium setting methods and coverage rules. These compulsory, primarily no-fault schemes are highly regulated and provided through a scheme structure (i.e., they are not general insurance), with premiums set and/or approved or recommended by the legislation or regulator.

Schemes may be publicly or privately underwritten. In publicly underwritten schemes, a central authority sets premiums based on actuarial forecasts, with private insurers sometimes engaged as claims agents. In privately underwritten schemes, insurers price premiums commercially within legislative requirements.

While most small businesses operate within a single jurisdiction, for those operating in multiple states, differing rules and processes create duplicated compliance obligations and additional administrative burden which is often challenging without dedicated HR or Work Health and Safety (WHS) capability.

Regulatory differences make it difficult for national insurers and agents to deliver consistent claims management, data, and return-to-work support, adding system costs that ultimately flow through to premiums.

## Workers' Compensation Insurance premiums

Schemes must collect sufficient premiums to remain fully funded, ensuring they can meet all claim costs and operating expenses, supplemented by investment earnings.

Premium rates are pooled across employers with similar risk profiles, with hundreds of industry classifications used across jurisdictions. Except for Comcare covered employers, those operating in multiple states must pay separate premiums in each scheme.

Premiums are generally charged as a percentage of an employer's wages and reflect factors such as employer size, industry rates and individual claims history. Large employers are usually "experience rated" (i.e., their own claims experience is considered), while small businesses are assessed mainly on their industry rate and remuneration levels.

Because premiums are pooled across industries, sectors with higher injury rates face higher premiums regardless of an individual employer's claim record. This disproportionately affects small businesses, as most are not experience rated, meaning:

- Their premiums depend largely on industry performance rather than their own.
- Rising industry claim costs, particularly in construction, manufacturing, agriculture and transport, translate directly into higher premiums.
- Employers with no claims still face premium increases when overall industry claims rise.

External economic and regulatory factors also influence insurance costs, independent of claims trends. These include inflation expectations (i.e., if higher inflation is expected, insurers may raise prices to cover increased claims and operational costs to maintain their financial viability), rising reinsurance costs (particularly for self-insurers), changing interest rates that affect investment income and operating costs, and regulatory changes that impact insurer expenses.

Publicly underwritten schemes have seen significant premium increases in NSW and Victoria,<sup>1</sup> driven by rising costs and funding ratios below 100 per cent (i.e., the schemes do not have enough assets to cover estimated future claim liabilities), suggesting that premiums were insufficient for the schemes to operate on a fully funded basis.<sup>2</sup> This has led to higher premiums, tighter eligibility and stricter return-to-work requirements.

Privately underwritten schemes remain generally more stable, though they too face emerging cost pressures.

## Key Pressures Driving Premium Increases

Across jurisdictions, several trends are increasing pressure on workers' compensation schemes including rising claim numbers<sup>3</sup>, higher average claim costs driven by medical inflation and treatment

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<sup>1</sup> Increases in average premium rates in NSW and Victoria since 2021/22 were 29.86 per cent and 41.51 per cent respectively (the average premium rate in NSW 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).

<sup>2</sup> Safe Work Australia. 2023. [Comparison of Workers' Compensation Arrangements in Australia and New Zealand 2023, 29<sup>th</sup> Edition.](#)

<sup>3</sup> For example, in Victoria, claim numbers increased by 28.5 per cent from 2019-20 to 2023-24, with claims increasing over this period from 27,686 claims to 35,575 claims. WorkSafe Victoria. 2024. [Annual Report 2023-24.](#)

complexity,<sup>4</sup> more long duration claims (60+ days off work-),<sup>5</sup> and growing claims involving chronic conditions, comorbidities, ageing workers and secondary psychological injuries. For small businesses, these longer claims increase premiums and reduce workforce availability, adding financial strain.

Psychological injury claims are rising rapidly, leading to higher costs, longer recovery periods and potential workplace relationship challenges. Broader increases in mental ill-health are amplifying these pressures across health systems, workplaces- and statutory insurance schemes. In the past year, 22 per cent of Australians experienced a mental disorder, rising to 39 per cent among young adults aged 16–24.<sup>6</sup>

For workers' compensation, psychological injury claims are materially more expensive than physical injury claims as demonstrated below:

- The median time off work for psychological injuries is approximately 31 weeks compared to 6 weeks for physical injuries.<sup>7</sup>
- The average mental injury claim cost is more than three times the average physical injury claim.<sup>8</sup>
- In NSW, psychological claim numbers have doubled since 2018 and in Victoria they now represent 16 per cent of all claims (up from 2 per cent in 1985).<sup>9</sup>

Drivers behind the increase in psychological injury claims include increased community awareness of mental health, workplace stress factors, and societal shifts in resilience and help seeking behaviour. The current shortage of medical professionals (e.g., psychologists and psychiatrists), as well as stigma, makes the provision of early treatment more challenging, which can delay recovery and return to work and add additional costs to the workers' compensation schemes.

Dust diseases, like silicosis and asbestosis, pose further challenges to workers' compensation schemes as highlighted below:

- Silica related- illness has surged, with Victoria recording a 27--fold increase in silicosis claims between the periods 1985–2014 and 2015–2022.<sup>10</sup>
- Engineered stone bans will mitigate future risk but do not eliminate long-tail liabilities for past exposures.
- Tunnelling, mining and manufacturing continue to present emerging silica risks.

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<sup>4</sup> For example, in WA, in the four years up until 2023/24, payments of direct compensation to workers increased by 23.8 per cent and service payments increased by 19.6 per cent. WorkCover WA. [Workers Compensation in Western Australia Annual Statistical Report 2023/24](#).

<sup>5</sup> For example, in WA, the proportion of claims with 60+ days of lost time increased from 39.3 per cent of claims in 2021/21 to 45.7 per cent of claims in 2023/24. WorkCover WA. [Workers Compensation in Western Australia Annual Statistical Report 2023/24](#). Safe Work Australia data shows a similar trend with the percentage of claims with 13 weeks or more time lost rising from 13.4 per cent in 2021/13 to 21.3 per cent in 2021/22. Safe Work Australia. 2024. [Key Work Health and Safety Statistics Australia 2024](#).

<sup>6</sup> Australian Institute of Health and Welfare. 2021. [Australia's Youth: mental illness](#).

<sup>7</sup> Safe Work Australia. 2023. [Key work health and safety statistics Australia 2022](#).

<sup>8</sup> The median compensation paid was \$55,270 per serious claim, compared to \$13,883 for physical injuries and diseases. Safe Work Australia. 2022. [Key work health and safety statistics Australia 2022](#).

<sup>9</sup> NSW Government. 2025. Ministerial Media Release. [Workers Compensation reform passes key hurdle](#); Turks. 2024. [The 'Scheme Modernisation' Changes to Victoria's Workers Compensation laws – will they have the desired impact?](#)

<sup>10</sup> Monash University. 2025. [Australian-first Monash study highlights the rapid rise of silicosis associated with artificial stone work](#).

These claims frequently involve large compensation payouts, complex causation assessments, and specialist medical care, adding volatility to scheme liabilities and premiums.

## Impacts on Small Business

Small businesses face unique vulnerabilities in the current environment, particularly as sharp and unexpected premium increases place pressure on cash flow, and many small employers have limited capacity to absorb wage replacement or backfill costs.

In high-risk industries such as construction trades, premium rates can reach 14 -18 per cent of payroll, placing pressure on business viability. Administrative demands also create challenges, as navigating workers' compensation schemes diverts resources from core operations, complex claims processes strain employers with limited HR capability, and undertaking return-to-work planning without professional support can contribute to longer claim durations. Workforce constraints further compound these issues, with small businesses often lacking the ability to reassign injured workers to suitable duties, prolonging claims, while higher premiums can deter hiring new workers.

Finding suitable duties in a host employer arrangement (i.e., where a worker is employed by one entity such as a labour hire firm but performs work under the direction of another organisation) can be particularly challenging given responsibility for the injured worker is shared across multiple parties and, unlike a direct employer, host employers may be less willing to invest time or resources in job redesign, training or workplace adjustments.

Access to treatment issues (for example, due to shortages of medical professionals), are felt more acutely by small businesses, as difficulties in treating injured workers and facilitating their return to work have a proportionally greater impact given smaller workforce numbers.

At a broader market level, rising loss ratios and ongoing scheme volatility in some publicly underwritten jurisdictions may place additional pressure on premium affordability.

## Recommendations for Governments, Regulators and Insurers

The Insurance Council provides the following recommendations to address pressures on workers' compensation schemes, noting that some recommendations are a matter for state governments.

### *Prevention and Early Intervention*

- Fund targeted mental health prevention initiatives, including psychosocial risk management support for small businesses.
- Expand early intervention programs that identify emerging psychological distress before it evolves into a compensable claim.
- Promote uptake of WHS education and early support models tailored for small employers.

### *Improve Access to Treatment*

- Address critical shortages of psychologists and psychiatrists, especially in regional areas.
- Invest in digital and hybrid care pathways to reduce wait times.
- Encourage guidelines for best practice mental health care within workers' compensation schemes.

### *Strengthen Claims Management*

- Support specialised training for case managers, focusing on psychological and complex claims.

- Implement retention incentives and mentoring programs to reduce turnover.
- Promote biopsychosocial and multidisciplinary case models that reduce claim duration and improve return-to-work outcomes.

#### *Commonwealth subsidies for host employers*

- Commonwealth funding to introduce subsidies for host employers to assist with the practical and financial costs associated with providing suitable duties for injured workers such as job redesign, supervision, training, workplace modifications and administrative coordination.

#### *Legislative and Scheme Reform*

- Review eligibility rules for psychological injuries to ensure appropriate coverage while maintaining scheme affordability.
- Consider thresholds, clearer causation tests, and better-defined psychosocial hazard frameworks.
- Support mechanisms that streamline dust disease claims and improve early diagnosis through screening programs.

#### *Harmonisation of Workers' Compensation Obligations*

- Align core principles, administrative processes, and definitions across jurisdictions.
- Introduce more consistent premium setting frameworks, return-to-work requirements, and coverage rules.
- Reduce administrative duplication for multi-jurisdiction employers.

#### *Support for Small Business*

- Enhance access to practical return-to-work assistance for small employers.
- Provide subsidies or grants for mental health-related WHS improvements.
- Invest in digital self-service tools to simplify premium, claims, and compliance processes.

We hope this submission is of assistance. Please do not hesitate to contact Alice Nichol, Senior Adviser, Insurance Lines on 0427 902 960 or at [anichol@insurancecouncil.com.au](mailto:anichol@insurancecouncil.com.au) if you have any queries.

Sincerely,



**Andrew Hall**  
Executive Director and CEO