

Submission

Standing Committee on Economics, Industry and Recreation
ACT Legislative Assembly
196 London Circuit
Canberra ACT 2601

Via email: LACommitteeEconomics@parliament.act.gov.au

Inquiry into insurance costs in the ACT

The National Insurance Brokers Association (NIBA) welcomes the opportunity to provide feedback to the Inquiry into Insurance Costs in the ACT. Insurance plays a vital role in supporting businesses, communities, and the broader economy by protecting against financial loss and ensuring resilience in the face of risk. A well-functioning insurance market is essential to enabling economic stability, and community sustainability.

Canberra's 35,000 private businesses employ approximately 164,000 people, representing 62 percent of all jobs in the ACT, with 97 percent of these businesses classified as small businesses. Given the critical role these businesses play in the local economy, it is essential that policy settings foster an insurance environment that is affordable, accessible, and competitive.

To support a sustainable insurance market, it is crucial that regulatory frameworks strike the right balance between protecting policyholders, ensuring affordability, and encouraging insurer participation. A competitive insurance market with clear, stable, and predictable policy settings will help businesses and communities manage risk effectively while maintaining economic growth and employment opportunities across the ACT.

NIBA appreciates the Committee's focus on these important issues and looks forward to contributing to the development of policy solutions that support a strong, sustainable, and competitive insurance market.

About NIBA

NIBA is the peak representative body for the general intermediated insurance industry. NIBA serves as the collective voice of approximately 450 member firms and 15,000 individual brokers. Our membership encompasses a diverse range of entities, including large multinational insurance brokers, Australian broker networks, as well as small and medium-sized businesses located in cities and regional areas around Australia. NIBA advocates for the interests of general insurance brokers and their clients, ensuring that the general industry operates with integrity and professionalism.

T: +61 2 9964 9400
E: info@niba.com.au

Suite 4.01B, Level 4,
31 Market Street, Sydney
NSW 2000

NIBA's work is guided by our core pillars: community, representation, and professionalism. NIBA's mission is to enhance the professional standing of insurance brokers through robust advocacy, education, and ethical standards. By fostering a collaborative and innovative environment, NIBA aims to elevate the quality of service provided to consumers, strengthening trust and confidence in the insurance broking profession.

The role of insurance brokers

General insurance brokers are professional risk advisers who act on behalf of their clients to protect their assets and businesses. Their expertise extends beyond arranging insurance, as they play a critical role in helping clients understand, assess, and manage risks. Specifically, brokers:

Identify, assess, and manage risks

Many business owners are experts in their fields but may not have the necessary expertise to evaluate their own risks accurately. This is often due to optimistic bias, a well-established principle in social psychology. Insurance brokers provide expert advice to identify existing and emerging risks, including uninsured exposures, and recommend risk management measures, with insurance often playing a key role.

Develop tailored risk-transfer and risk-financing strategies

Brokers recommend insurance solutions aligned with a client's specific risk profile. Where capacity in the traditional insurance market is limited, they may also recommend alternative risk-transfer mechanisms such as mutuals and pools.

Navigate complex insurance markets to secure appropriate cover

Insurance markets are intricate, with significant variations in policy wordings and terms. Unlike the direct market, where consumers only have access to standard 'off-the-shelf' products, brokers can negotiate changes to policy wordings, exclusions, and pricing to better meet their clients' needs.

Advocate for clients during the claims process

Claims can be one of the most stressful periods in a client's insurance journey. Brokers provide technical expertise and support throughout the process, advocating on their clients' behalf to facilitate fair and efficient claim outcomes.

Review and renew coverage to ensure ongoing suitability

Risk exposures evolve over time, and brokers play an ongoing role in reviewing clients' coverage to ensure it remains appropriate. At renewal, brokers assess market options and negotiate terms to maintain competitive terms.

Key Issues Affecting Insurance Costs in the ACT

1. Workers' Compensation Insurance

Workers' compensation insurance in the Australian Capital Territory (ACT) is a significant factor driving overall insurance costs, particularly for small businesses. The ACT scheme operates under a unique framework that differs significantly from other jurisdictions, particularly in its approach to common law claims and premium regulation. The absence of key cost-containment measures, such as a Whole Person Impairment (WPI) threshold and limits on common law damages, has contributed to rising

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E: info@niba.com.au

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NSW 2000

premiums, market instability, and challenges for both insurers and businesses. These structural issues have made workers' compensation in the ACT one of the most expensive in Australia, placing significant financial pressure on employers and limiting competition in the insurance market.

1.1 Comparison of ACT scheme to other states

	NSW	Vic	Qld	WA	SA	Tas	NT	ACT
Employees covered	3,666,562	3,123,394	2,410,287	1,304,079	795,152	245,690	131,246	161,223
Number of serious claims with >1 week incapacity	47,879	20,289	32,676	12,747	7,026	3,441	1,069	1,813
Number of serious claims per 1,000 employees	13.1	6.5	13.6	9.8	8.8	14	8.1	9.5
Compensated deaths per 100,000 employees	1.3	1.5	1.1	1.4	1.8	0.4	0.8	2.5
Funding Model	Public	Public	Public	Private	Public	Private	Private	Private
Standardised Average Premium rate (% of payroll)	1.45	1.31	1.15	1.45	1.60	1.92	1.29	1.62
Access to Common Law	Yes	Limited	Yes	Yes	Limited	Yes	No	Yes

1.2 Unlimited Common Law Liability

Unlike most other Australian jurisdictions, the ACT allows injured workers to pursue unlimited common law claims for damages if their injury was caused by their employer's negligence. This means workers can seek compensation beyond the statutory workers' compensation scheme, with no cap on damages. The absence of statutory limits creates uncertainty for insurers and employers, leading to substantial payouts and increased costs.

In contrast, New South Wales (NSW) imposes a Whole Person Impairment (WPI) threshold of 14% for common law claims. This threshold serves a number of purposes.

Limiting Common Law Claims to Serious Injuries

The WPI threshold ensures that only workers with significant, long-term impairments can pursue damages beyond statutory workers' compensation benefits and prevents minor injuries from escalating into costly legal disputes, the costs of which are passed on to the employer through premium increases.

T: +61 2 9964 9400
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Encouraging Early Injury Management and Rehabilitation

The system prioritises statutory compensation benefits (such as medical expenses wage replacement and rehabilitation services) for workers with less severe injuries. This promotes faster recovery and return to work.

Ensuring Scheme Stability and Sustainability

The WPI threshold also plays a critical role in containing legal and insurance costs by limiting the volume of common law claims. Without a minimum impairment requirement, there is a greater risk of litigation over minor injuries, increasing legal expenses and insurer liabilities. By providing a clear eligibility benchmark, the threshold enhances predictability for insurers and contributes to a more stable premium environment for businesses. This is particularly important in maintaining the long-term sustainability of the worker's compensation system and ensuring that insurance remains affordable for employers.

1.3 Rising Premiums and Market Instability

Workers' compensation premiums in the ACT are among the highest in the country, with recent data from Safe Work Australia indicating that premiums in the ACT are significantly higher than those in NSW across most industries. Unlike many other states, which utilise a premium cap to limit premium variances, premium increases in the ACT are uncapped. This creates financial uncertainty for businesses, especially small businesses, which are less likely to be able to absorb these increases. This makes it difficult for businesses to budget and plan for the future, discouraging investment and expansion.

1.4 Journey Claims

Unlike most other jurisdictions that exclude or limit journey claims, the ACT workers' compensation scheme includes coverage for injuries sustained while travelling to and from work. The inclusion of these claims increases insurers' liabilities, leading to higher premiums for employers. The inclusion of journey claims raises concerns about greater claim frequency and complexity, further driving up costs within the scheme. It also introduces a potential overlap with coverage provided by Compulsory Third-Party (CTP) insurance, adding to administrative challenges and uncertainty around liability allocation.

1.5 Impact on Small Businesses and Industry Sectors

The high cost of workers' compensation insurance in the ACT places a disproportionate burden on small and medium-sized businesses. Unlike larger businesses, which often have greater financial flexibility to absorb increasing insurance costs, SMEs often operate with tighter profit margins and have fewer resources to mitigate the impact of rising premiums.

For businesses in industries with high risk profiles, workers' compensation premiums are much higher than the standardised average rate. For example, the suggested reasonable premium rate for the horse-racing industry is listed as 17% for the 2024/25 Financial Year.

One sector that has been particularly affected is the stonemasonry trade, which has seen significant premium increases due to the risks associated with silicosis. Workers exposed to respirable crystalline silica face long-term health consequences, leading to costly claims and significant liability for insurers.

T: +61 2 9964 9400
E: info@niba.com.au

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Stonemasons in the ACT have reported significantly higher premiums than their NSW counterparts Where silicosis claims are managed under the Dust Diseases Scheme.

The broader impact of rising workers' compensation costs extends beyond individual businesses. Higher premiums can influence business confidence, investment decisions, and employment opportunities across affected industries. In some cases, businesses may face difficulties in attracting and retaining skilled workers due to cost pressures. Industries that are unable to absorb these costs may need to adjust their pricing structures, which could impact competitiveness.

2. The Growing Risk of Climate-Driven Disasters and Insurance Accessibility

Insurance plays a critical role in mitigating the financial impact of climate-related disasters, supporting communities in recovery, and ensuring economic stability. Reports from the Intergovernmental Panel on Climate Change (IPCC) and the United Nations Framework Convention on Climate Change (UNFCCC) highlight the importance of insurance as a risk-sharing and risk-transfer mechanism to address climate change-related losses. However, the increasing frequency and severity of natural disasters is placing pressure on insurance markets, making coverage less affordable and, in some cases, unavailable. The Insurance Council of Australia's historical catastrophe data reveals that insurers have paid \$20.9 billion in claims due to natural disasters over the past five years, more than double the \$9.9 billion paid in the five years prior. This sharp rise in claims has resulted in increasing costs for insurers, which are ultimately passed on to policyholders through higher premiums.

2.1 The Role of Insurance in Supporting Resilience and Recovery

Insurance plays a crucial role in helping communities rebuild after natural disasters. Studies have shown that homeowners with adequate insurance are significantly more likely to rebuild following a disaster than those without coverage. Without adequate insurance, many homeowners and businesses face severe financial hardship after a disaster. This increases reliance on ex gratia government support and places a greater burden on taxpayers. Ensuring the availability and affordability of insurance is therefore essential for enhancing economic resilience and ensuring faster community recovery after extreme weather events.

2.2 The unaffordability and availability of insurance due to climate-driven disasters

Increasing insurance losses due to more frequent natural disasters, as well as changes to actuarial and underwriting models and underlying risk profiles, have resulted in significant increases in insurance premiums in many parts of the country.

Insurance affordability and availability are intrinsically linked. Insurance products may be unavailable due to a lack of available cover within a region or class, or the insurance premiums are priced so high to be unaffordable to the average policyholder, making insurance effectively unavailable. This trend is already visible in parts of Northern Australia, where home insurance premiums are, on average, almost double those in the rest of the country.

In high-risk areas such as Port Hedland, Western Australia, 25% of households pay premiums more than four times the national average, with cyclone risk accounting for 54% of the gross premium cost. Of this premium, cyclone risk accounts for approximately 54% of gross premiums. 12 This has led to

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higher-than-average rates of non-insurance, exacerbating the economic impact of cyclones on these communities.

Several factors contribute to the rising cost of insurance premiums in Australia, particularly in regions affected by climate-driven disasters. These factors include:

1. Higher claims costs due to increased frequency and severity of natural disasters

Over the past 5 years, insurers have incurred almost \$21 Billion in claims due to natural disasters. In comparison, insurers incurred approximately \$10 Billion in the five-year period prior. These increased claims costs are passed on to policyholders in the form of higher premiums. Although 2023 and 2024 experienced fewer natural disasters, 2025 has begun with significant challenges, as insurers have already received 74,000 claims following ex-Tropical Cyclone Alfred.

2. Higher Reinsurance Costs

Insurers rely on reinsurance to manage their risk exposure. In 2023, reinsurance costs rose to a 20-year high, with Australian insurers facing cost increases of up to 30 percent. While the global reinsurance market softened towards the end of last year, it is uncertain what effect, if any, the LA Wildfires will have on the Australian market.

3. Increased labour and supply chain costs

The increase in natural disasters has placed significant pressure on both supply chains and building trades, increasing both claims costs and premiums. This has been compounded by significant inflationary pressures over the past 18 months.

2.3 The Role of Government in Climate Adaptation and Risk Mitigation

The role of government in implementing climate adaptation and resilience measures is paramount to reducing risks and the cost of insurance. Through strategic investments in infrastructure, sustainable practices, risk-sharing mechanisms, and research, governments can enhance community resilience and ensure the long-term viability of insurance markets. Natural disaster mitigation has many benefits; improved community safety and resilience, reduction in property damage, faster recovery, and a reduction in the economic impact of natural disasters.

NIBA supports measure taken by both State and Territory, and Federal governments to strengthen climate resilience, including the establishment of the Disaster Ready Fund and improvements to building resilience under the National Construction Code.

The rising cost of insurance in the ACT presents significant challenges for businesses, community organisations, and the broader economy. Issues such as high workers' compensation premiums, increasing litigation, and the growing impact of climate-related disasters are placing pressure on the insurance market, making coverage less affordable and, in some cases, more difficult to obtain. Without targeted reforms, these trends will continue to affect business confidence, economic resilience, and employment opportunities across the Territory.

A well-functioning insurance market is crucial for protecting businesses and communities, as well as promoting economic stability. By addressing workers' compensation cost drivers, improving regulatory consistency with other jurisdictions, and implementing measures to enhance climate resilience, policymakers can help create a more stable and affordable insurance environment for all stakeholders.

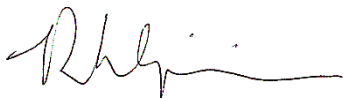
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E: info@niba.com.au

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NIBA welcomes the opportunity to work with the ACT Government to develop practical and balanced policy solutions that ensure the ongoing affordability and accessibility of insurance. We look forward to continued engagement on these important issues and remain available to assist policymakers in shaping reforms that benefit businesses, insurers, and the broader ACT community.

Should you have any queries in relation to this feedback or wish to discuss any of the matters raised, please do not hesitate to contact Allyssa Hextell, Head of Policy and Advocacy, at ahextell@niba.com.au.

Yours sincerely,



Richard Klipin
Chief Executive Officer
National Insurance Brokers Association

T: +61 2 9964 9400
E: info@niba.com.au

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31 Market Street, Sydney
NSW 2000