Mercer Marsh Benefits

2021 Australian Insurance Market Recap Series

People Risks

Insights/February 2022

At a glance

95%

95% of employers believe investments in health & well-being will continue to be a priority in 2022.

Workers' compensation
The final quarter of 2021 saw continued premium rate increases across ACT, NT, TAS and WA markets.

Mental health
Concerning rise in mental health claims under Accident & Health, Group Life, and Workers' Compensation lines.

ESG
Insurers continue to increase their scrutiny of insureds' active commitments to Environmental, Social and Governance factors.

COVID-19 overage
Accident and Health (A&H)
Most policy coverage will continue with effect from renewal, but a drop in insurer risk appetite is expected.

Workers' Compensation
Despite challenging conditions, insurers are still supporting entities that demonstrate sound risk management intervention and risk profile articulation.

International Health (expatriate)
Stable renewal clients can expect rate increases in line with medical inflation (approx.10%).

The COVID claim effect
The average cost of a COVID related workers' compensation claim was $10K. There was a direct correlation in weekly compensation benefits and premiums.

Corporate Travel
Insurers no longer consider COVID-19 unforeseen or unforeseeable for A&H. Related claims therefore not insured.

Life Insurance
Market competition – number of providers remained stable following the acquisitions of 2019/2020. This meant fewer options but a highly competitive market.

Life policy rates
Policies with long-term benefit periods seem most affected by the uncertain economic outlook with rate increases of 35% becoming prevalent.

Life Insurance claims
Cancer claims still prevalent, and mental illness cases are becoming a major concern due to the economic impact of the pandemic.

People Risks
Market Update 2021

Accident and Health

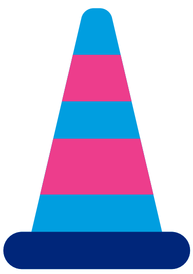
Key coverages and claims considerations

Since 2020, the Accident & Health (A&H) market has experienced unprecedented change, from the near elimination of business travel, to reduced wage roll, and a deep shrinkage of expatriate assignees due to COVID-19 lockdowns. Our working and personal lives will continue to be transformed as a result of COVID-19 with varying impacts.

As international and domestic borders reopen, it remains of paramount importance that employers continue their "return to normal" planning. There is a renewed focus on client holistic People Risk, including reducing risk profiles in conjunction with assessing how clients' insurance coverages may be impacted by insurer-imposed COVID-19 limitations and exclusions.

Current market conditions have highlighted the need for a **best practice duty of care review** incorporating continual education, employee wellbeing and mental health, pre-trip medical & health risk assessments, monitoring of employees' movements, security, evacuation and medical assistance support. With Group Personal Accident, the early reporting of claims and intervention with a clear return to work strategy are vital.

In this report we outline some of the key issues and insurer positions within the A&H market, noting that this is a dynamic environment, and the below information is subject to change.



Insurers are actively reviewing their A&H portfolio, risk appetite, penalising poorer performing accounts and in some instances introducing COVID-19 coverage restrictions. There is no standard COVID-19 coverage practice, so care is recommended when comparing insurers.

International health (expatriate)

Most expatriate policies provide global coverage with generally nil pandemic exclusions. Insurers have experienced a significant "shrinkage" in insured persons as expatriates return home, either for safety or enforced or voluntary early closure of assignments.

Insurers' coverage limitations surrounding temporarily returned expatriates (home leave) remain in place, whilst Australian expatriates with access to Medicare will have limited expat health cover. We recommend you request a copy of our "Temporarily Returned Expatriate" tool to unlock benefits available.

The initial COVID-19 impact correlated with a reduction in claims due to medical treatment restrictions and a delay for all non-essential treatment. Recent claim trends indicate an increase in treatment to levels that exceed those of 2019. The challenge for insurers at renewal is to understand the true claims trend as each client has separate and different claims patterns.

Renewal clients with stable insured persons and claims will expect rate increases in accordance with medical inflation increase (approx. 10%). Policies subject to historically poor performing claims or significantly reduced insured numbers will expect higher rate increases coupled with additional underwriting action.

With effect from renewal, the majority of insurers will continue to provide COVID-19 coverage although there is an expected reduction in insurer risk appetite for this class of business - especially when placed in isolation from other A&H lines.

The majority of employers are currently reviewing the viability of expensive overseas expatriate assignments in light of the pandemic. Companies are fast tracking local workforce development, virtual assignments, localisation of expatriates, short term or commuter assignments, local county compliance, cost containment strategies and reviewing employee experiences of working overseas during the pandemic.

Corporate Travel

Insurers experienced bounteous COVID-19 insurance claim volumes largely for Loss of Deposits, Cancellation and Additional Expenses claims. Consequently, insurers no longer consider COVID-19 unforeseen or unforeseeable and related claims are for that reason not insured. Travel patterns were initially dictated by infection prevalence and where airlines/countries were satisfied that an appropriate COVID-19 vaccination passport (double vaccination) was available and up to date.

The majority of employers are currently reviewing the viability of expensive overseas expatriate assignments in light of the pandemic.

The partial opening of international and state borders lead to an initial spike in domestic and international business travel as business activities resumed and returned to a new normal. Travel movements have since plateaued as new COVID variants have surged and impacted travel management strategies. This has again brought into question the viability and practicability of international travel versus a virtual presence, local resource capabilities, COVID-19 restrictions and infection rates.

The vast majority of Corporate Travel policies have remained active on a reduced declaration of travel basis to act as a safety net for unplanned travel or earlier than expected travel. We anticipate a unit cost rate increase which, when coupled with an expected increase in travel, will compound premium increases.

There is some market contraction expected with specific scrutiny on pure leisure travel declarations.

Some insurers are now considering loss of deposit/cancellation/additional expenses coverage for events caused prior to journey commencement, such as: (1) COVID-19 unexpected death, (2) the insured contracts COVID-19, (3) the insured, close relative, close colleague or travelling companion is quarantined because of a close contact with a positive or suspected case of COVID-19.

As insurers are regularly reviewing coverage which is being influenced by community expectations, care is required to understand individual policy terms and conditions at renewal.

Personal Accident

Compared to Travel, COVID-19 claim volumes in the Personal Accident & Sickness segment have generally remained stable. Of much greater concern is the economic consequences of the virus, employee retention rates, employee wellbeing and an increase in mental health claims. In terms of Group Personal Accident polices, reducing payrolls in some industry segments has reduced overall premiums which could be offset by a further increase in Government funding for large infrastructure projects.

Unlike Travel, we do not anticipate any COVID-19 specific exclusions applied to Group Personal Accident policies. Likely however will be price increases based upon individual policy performance and increasing reinsurance costs, however there remains sufficient insurer capital and appetite to create pricing tension.

Where clients have Enterprise Agreements (EAs), Mercer Marsh Benefits (MMB) is offering a free EA income protection health check, including market options, efficiency gains and potential savings where claims performance warrants and from consolidation of programs.

Conclusion

The future of work demands healthy and engaged employees, so now is the time for employers to consider proactively implementing a holistic People Risk plan. Fortunately, 95% of employers believe investment in health and well-being will be the same or a greater priority in the future.

Developing a comprehensive health and wellbeing strategy should be initiated by the C-suite and involve human resources, ESG, occupational health and safety, risk management, operations, and marketing/ communications.

Employers cannot afford to do nothing. It is critical that employee health and well-being is made a business imperative. When your people are healthy and protected, your business is heathy and protected.

Workers' Compensation

National overview

Over the last 12 to 18 months, the Australian workers' compensation landscape has been challenged significantly by the pandemic and changes to what businesses are now considering the "new normal" when managing COVID-19 in the workplace. At a national level, this has resulted in increased market pressure on rates and claims experiences. This has in turn led to anticipated increases in premiums in 2022 and beyond, as both insurers and Government regulated schemes look to claw back poorly performing funding ratios. As a result of these trends more clients are focusing on assessing alternative premium arrangements as a way of identifying premium savings on their workers compensation program.

State of the underwritten market (ACT, NT, TAS, WA)

Across the final quarter of 2021, we continued to see premium rate increases across the ACT, NT, TAS and WA markets. The level of increase has varied depending on the performance of the insurer's portfolio along with the performance of the insured entity.

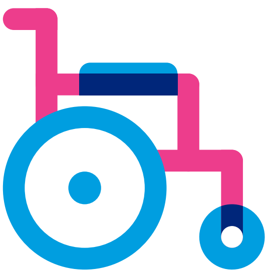
Insurers are seeking 5-7% increases on profitable policies while unprofitable programs are experiencing 20%+ rate increases. This is compounded due to a number of insurers experiencing portfolio profitability issues whilst others are being very selective when it comes to the markets in which they will participate. Poor results and low appetite, combined with reduced investment income has created challenging conditions in the market.

Despite these challenging conditions, insurers are still supporting entities that demonstrate sound risk management intervention and risk profile articulation with leading market engagement. MMB is still best placed to manage strong results for clients.

Excess of loss (XOL)

Outside of traditional policies in the risk states, the XOL market has had even greater challenges over the course of 2021. Unfortunately, large and unforeseen losses in this class have resulted in pricing pressure on insurers, which continues to drive significant increases in average rates. The decision by Vero to exit the XOL market has also reduced appetite and capacity within the market.

For clients that hold an XOL policy, we recommend that you establish a robust claim notification process to meet your policy requirements. Additionally, a strong claims management program and engagement with insurers is vital and ultimately beneficial in mitigating poor outcomes.



Managed fund performance (NSW, QLD, SA and Victoria)

New South Wales

The New South Wales market was heavily impacted by COVID-19 throughout 2021. Both the lockdowns and virus contagion in the workplace have necessitated that employers consider working from home arrangements and vaccination policies (including potential vaccination mandates) to ensure they are compliant in providing a safe working environment. As a result, there has been a shift in the risk profile of employers and an increase in COVID-19 related claims (the average cost of which was $10,000). This directly correlates with weekly compensation benefits and premiums as a result of time loss.

From a scheme perspective, clients should be aware of the following developments that occurred in the final parts of 2021:

1. Confirmation that insurance companies Allianz, EML, QBE and GIO all had their contracts extended by the Nominal Insurer (icare) until 31 December 2022. This affirms that icare has intentions to run an insurance tender in 2022 for an effective date of all successful applicants on 1st January 2023.
2. The icare Board has continued to take action to improve the operation of its business across risk and governance and performance. Icare is now providing monthly updates on their Improvement Program which includes the 'icare and State Insurance and Care Governance Act 2015 Independent Review' Report by the Hon Robert McDougall QC (McDougall Review).
3. In October 2021, icare announced a claims migration pilot which will see claims (both open and closed) move from EML to QBE for clients who had elected to move to QBE under the Authorised Provider Model. The success of the pilot could result in efficiencies in the future migration of claims across agents within the scheme.

Queensland

Queensland continues to lead the way in regards to funding ratio and overall employer performance and experience, with average premium rates remaining stable at 1.40% of wages.

WorkCover QLD passed laws in May 2021 with regards to presumptive assessments, meaning that first responders and other eligible employees who have been diagnosed with PTSD by a psychiatrist, no longer need to prove their PTSD was caused by their employment. This is a risk profile that has increased in both severity and cost in the last 2-3 years and these changes have been designed to make it easier for mental health injuries to be accepted by the insurer.

Overall, WorkCover QLD was largely unaffected by the pandemic until December 2021 however it has not been possible to obtain any specific trends on what this means for employers moving forward.

South Australia

South Australia has been largely unaffected by the COVID-19 pandemic however their average premium rate for 2021-22 did increase to 1.70%. Despite scheme improvements in return to work performance in 2020-21, a higher number of claims are meeting the serious injury threshold. The increase in the average premium rate was attributed to the increased cost pressure on the Scheme from the additional support and services provided to this cohort of claims.

Furthermore, on 11 March 2021 a key judgment was handed down by the Supreme Court (*Return to Work Corporation of SA v Summerfield [2021] SASCFC 17* ("*Summerfield*")), which permitted the combination of workers' injuries for Whole Person Impairment (WPI) assessments. ReturnToWorkSA sought to challenge the decision in the High Court, however their application for special leave was dismissed on 5th November 2021. As a result, the Supreme Court's decision stands and allows for some injured workers to combine impairments from separate injuries, moving them into a higher category of impairment. This will increase the benefits that an injured worker will receive through lump sum payments for WPI and will allow their claim to cross the threshold to apply for a serious injury.

ReturnToWorkSA is required to apply the Supreme Court ruling in accordance with individual claim circumstances. This decision is likely to have an impact on the funding ratio of the scheme leading to an anticipated rate increase in 2022/23.

Victoria

The Victorian workers compensation scheme was impacted by COVID-19 throughout 2021. This is largely due to Victoria's forced lockdowns, which have impacted: employers' ability to provide injury management support and rehabilitation, the suspension of medical interventions and elective surgery, delays in providing appropriate return-to-work pathways, and the under-performance of insurers' early return to work targets.

WorkSafe also elected to extend the temporary Employer Transfer Freeze Policy (Policy) until 30 June 2022. This is due to emerging and ongoing issues associated with the COVID-19 pandemic, the transition of CGU Workers' Compensation (Vic) Limited (CGU) out of the Scheme, and the extension to the current Agency Agreement. These combined factors have had the potential to cause disruption and uncertainty within the Scheme.

The primary objective of the transfer 'freeze' was to ensure continuity in the support and care provided to injured workers as they face challenges to their health recovery, and uncertainty in their return to work outcomes due to the current environment. It is worth noting that many of these claimants may have already had their claims transferred to another Agent during 2020/21 as a result of the CGU transition.

The WorkSafe Annual Report 2021 was also released in late 2021 and provided an update on the performance and state of the scheme and performance. The main call-outs were:

- 22% of injured workers on weekly benefits were receiving them for mental injury claims (up from 20.8% in 19/20)
- 21,000 injured workers were assisted in their return to work
- Performance from insurance operations resulted in a \$3.9bn deficit, deteriorating from \$3.5 billion last year
- As at 30 June 2021, WorkSafe's total assets were \$24.3 billion, compared to \$20.9 billion at 30 June 2020
- Total liabilities were \$25.4 billion, compared to \$21.5 billion at 30 June 2020
- 2,665 common law applications in 20/21 vs 3,011 in the previous period.

Self-insurance

Re-insurance

In each jurisdiction, self-insurers are required to hold reinsurance to protect against high cost claims. Many self-insurers are currently facing reinsurance premium increases due to:

- A hardening reinsurance market globally
- An escalation in costly mental health claims
- Concerns about a surge in COVID-19 claims (i.e. presumptive legislation in NSW, opening up with a "living with COVID" strategy, the long period of pandemic, etc.)
- Recent decisions suggesting 'related' injury impairments may be combined in NSW and SA

Changes to the Queensland self-insurer audit process

Following an extensive consultation period, Workers' Compensation Regulatory Services (WCRS) have finalised the Queensland Self-Insurer Audit Process and tool. The new process will commence for all audits from 1 July 2021. WCRS will continue to monitor and will evaluate its implementation by the end of 2022.

Changes to the ACT scheme

WorkSafe ACT has confirmed that as a result of upcoming changes to the scheme, they are currently not accepting new self-insurance licence applications. New regulations were expected in late October 2021, however they are still pending at the time of writing.

Life Insurance

Key coverages and claims considerations

The Australian life insurance market has experienced a period of continuous challenges over the last 3 years due to the legislative changes to insurance within superannuation, mergers and acquisitions, and the impact and uncertainty that COVID-19 has imposed on the economy. This last point saw life insurance revenue fall by approximately 6.6% in 2020-21; mainly driven by higher cancellation and lapse rates (in the retail sector), and fluctuations in investment returns. However, revenue is forecast to grow at an annualised 2.8% over the next five years (IBIS World: Life Insurance in Australia (November 2020)), as we begin to see some economic stability in a post-pandemic environment. In relation to market competition, the number of providers remained stable during 2021 after acquisitions that took place in 2019/2020 left us with fewer options but still with a highly competitive market.

Regulation & legislation

Life insurers have been implementing the latest reforms introduced by the Government as part of its response to the recommendations of the Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry (Royal Commission), and broader budget reforms.

The main changes impacting insurance within superannuation are:

1. *Protecting Your Super 'PYS'* – effective from July 2019, these changes seek to protect the retirement savings of young and low-balance super members from inappropriate insurance.
2. *Putting Members Interest First 'PMIF'* – effective from 1 April 2020, this change allows for insurance to be removed from inactive accounts and the accounts of members under 25, in order to protect their savings.
3. *Your Future, Your Super 'YFYS'* – this new legislation came into effect on 1 July 2021 and associated regulations on 5 August 2021. The changes mean that new employees entering the workforce will create only one super account which will last for the rest of their working life unless the person instructs differently. The aim being to reduce the incidence of members having (and paying fees for) multiple, unnecessary accounts (stapling).

The new reforms have impacted the life insurance industry in a number of ways:

1. **Insurance premiums:** As predicted, there has been a reduction of approx. 3% in the in-force insurance premiums in the market which has had a direct impact on the premiums charged to remaining members.
2. **Underinsurance issue:** The number of insured lives has decreased by 23% in the last two years. A significant proportion of this decline is expected to be due to the PYS and PMIF changes (above). This shows that already a portion of the population is not covered placing employers in a difficult situation as they may now have a portion of their workforce unprotected.

3. **Potential reduction in quality of policy terms:** If the cost of providing insurance continues to rise due to the PYS and PMIF changes, there is a potential risk that insurers will opt to reduce policy terms within superannuation to maintain profitability.
4. **Inappropriate insurance:** From the perspective of price, cover, and policy terms, locking an individual into one super account can render the insurance offering inappropriate to an individual's changing circumstances of the course of their working life with various employers. This is a significant risk for the Australian workforce, which is generally highly unengaged when it comes to superannuation.
5. **Opting in to default employer superfunds:** The Your Future, You Super legislation now requires new employees to 'opt in' to the employer's default superannuation fund; this makes consistent insurance offerings for employer groups difficult, and is a major issue where employment contracts require the employer to provide a minimum level of coverage.

Market competition

The consolidation of the Australian group insurance market over the last 3 years (AIA bought CommInsure, Zurich bought OnePath, and Hannover and AMP Life exited the Australian market), has left us with six providers in this space: TAL, AIA, MetLife, MLCL, Zurich and new local player, Integrity Life.

With the current players, competition is strong and insurers are still focusing on strengthening their technology and data capabilities to respond better to customer expectations, enhance member engagement, assist with better education for various stakeholders, and to improve their underwriting and claims processes.

Early intervention also continues to be an important part of the way the industry seeks to proactively manage or improve clients' experience. Insurers are willing to actively engage to offer return to work strategies and rehabilitation services to prevent incidents turning into claims.

Cancer claims continue to be prevalent within the industry, however mental illness cases are becoming a major concern due to the economic impact of the pandemic. Policies with long-term benefit periods (including five-year benefit periods) seem to be the most affected by the uncertain economic outlook with rate increases of 35% becoming prevalent before claims experience is factored in. Short-term (two-year) rates are stable. Death and lump sum Total & Permanent Disability rates are also stable.

The impact of COVID-19

The impact of the pandemic on the life insurance industry has not been as significant as initially expected. Even though the long-term effects are still unpredictable, insurers have not had the negative results in claims they were expecting to unfold at the start of the pandemic; this could be attributed to the Government's introduction of business owner support, and Job Keeper payments.

Although this may sound positive, it is important to be cautious, as historically the consequences of changes in employment (e.g. redundancies, furlough measures, leave without pay, temporary business closures, etc.), can take up to 18 months to materialise into claims, particularly mental illness claims. In fact, some insurers have already reported an increase in the number of mental health claims for income protection policies - a contributing factor for long-term premium rate increases.

From a policy perspective, the life insurance industry has not imposed pandemic exclusions into policies, however tighter leave without pay conditions will come into focus as furlough leave during the pandemic caught the industry off-guard, both from a policy/claims perspective, but also from a data administration perspective. All insurers are reviewing their terms on an ongoing basis and we continue to monitor the situation.

For further information, please contact your local People Risk consultant or visit: marsh.com/au/risks/people-risk.html

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